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THE GOVERNOR'S COMMISSION ON THE FUTURE OF MATURE INDUSTRIES

FINAL REPORT
June 1984

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(former member)

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Bronwen Zwirner
Director
Education and Political Action Committee, New England Regional Joint Board, Amalgamated Clothing and Textile Workers Union, A.F.L.-C.I.O,
North Dartmouth

ADVISORS

The Commission thanks the following people for their participation in the work of the Commission: Executive Consultant to the Commission, Barry Bluestone, Professor, Boston College; Clifford Beebe, Director of Special Projects, Technographics, Inc.; Kristin Demong, Director, Massachusetts Division of Employment Security; Sumner Milender, Consultant; Susan Moulton, Executive Director, Bay State Skills Corporation; Nathan Sandler, Manager of the Boston Joint Board of the International Ladies Garnment Workers Union, A.F.L.-C.I.O.; Catherine N. Stratton, Associate Secretary, Economic Affairs; and Robert Varnum, Vice President of Administrative Services, The Norton Company.

THE GOVERNOR'S COMMISSION ON THE FUTURE OF MATURE INDUSTRIES

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Judith Leff

Research Associates

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Natalie Ammarell

Kelley Brown

Richard Kazis

Patrick McGuigan

James Ray

Andrew Reamer

Joan Stoia

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TABLE OF CONTENTS

FINAL REPORT

INTRODUCTION 1

THE COMMISSION AND ITS WORK........................ 5

THE CHANGING MASSACHUSETTS ECONOMY AND THE IMPORTANCE OF MATURE INDUSTRIES 9

WHY INDUSTRIES DECLINE: FACTORS AFFECTING MATURE INDUSTRIES.............................. 11

THE COSTS OF TRANSITION: PLANT CLOSINGS AND MASS LAYOFFS IN MASSACHUSETTS...................... 17

GROWING FIRMS IN MATURE INDUSTRIES: WHAT BUSINESSES DO TO SUCCEED........................... 23

STATE EFFORTS TO ASSIST WORKERS AND INDUSTRY 27

RECOMMENDATIONS 37

THE SOCIAL COMPACT............................. 63

EXHIBITS....................................... 67

INDIVIDUAL POINTS OF CONCERN 77

APPENDICES

A THE MASSACHUSETTS ECONOMY AND MATURE INDUSTRIES

B INDUSTRY STUDIES

C PLANT CLOSINGS AND MASS LAYOFFS IN MASSACHUSETTS

D PUBLIC SECTOR RESOURCES FOR BUSINESSES' FINANCIAL NEEDS

E THE MASSACHUSETTS EMPLOYMENT AND TRAINING SYSTEM

INTRODUCTION

In June of 1983, Governor Dukakis formed the Commission on the Future of Mature Industries. In so doing, he asked a statewide cross section of leadership from business, labor, economics, and local government to join with senior members of his administration and key legislators to address one of the most important problems facing this state's economic future: the condition of our traditional manufacturing industries.

The Commission has recognized from the outset the limitations on the state's role in this area. Most economic decisions that affect the availability of jobs in Massachusetts are made in the private sector, and without question that reality should and will continue. That the marketplace has generally served us well is evident in the favorable statewide indicators of growth in jobs and personal income. Businesses have weighed the strengths of our Commonwealth against its weaknesses and more often than not bet on the former.

It is equally true that to the extent our state's economy is affected by public decisions, the most sweeping of those are made at the federal level, and not here in Massachusetts.

But recent experience has shown that there is a constructive and important role for the Commonwealth to play in the deployment of its own economic resources. Used wisely, our programs of business assistance and finance, education and training, infrastructure and capital formation can reinforce the strengths of our state's economy and cushion some of its weaknesses.

We must begin with an understanding of what the Massachusetts economy looks like on paper and feels like in the regions and communities that depend on it. In popular imagery--and in fact--Massachusetts is a unique product of two industrial revolutions: the one that built the mills of the nineteenth century, and the one that built the high technology companies of today. We are the leading technology state in America, yet we still represent in national economic debate the problems of the mature industrial northeast. That diversity is a great advantage.

In fact, our blend of mature industries and high technology, when coupled with a robust and expansive service sector, has enabled Massachusetts to weather the recession of the early 1980's and to emerge into a period of renewed economic growth.

Why, then, should we focus on the problems of mature industries? First and foremost, these industries remain a major source of jobs for our people. Of the approximately one-third of our workforce that is engaged in manufacturing, fully 60% are employed in what we have come to call "mature industries"--over 400,000 jobs in all.

Unlike the service and technology sectors, mature industries lost jobs during the recent recession--just as they have lost jobs, in the aggregate, since the Depression and World War II. Yet we simply cannot "write off" our older manufacturing base and assume that our state will make a smooth and humane transitiion to a computer-based future. In older industrial areas, like southeastern Massachusetts, or the Blackstone Valley, or the "northern tier" that extends from North Adams to Gardner, unemployment is often double the statewide average, the knowledge-based economic future has barely begun to take root, and the costs to families and communities of a mature industrial collapse would be immeasurable.

We do not believe that has to happen. For one thing, our mature industries are <u>not</u> uniformly in decline. All over Massachusetts, individual manufacturers of hand tools, industrial machines, paper, shoes, apparel, plastics, abrasives, and other basic goods are quietly going about the business of modernizing, reinvesting, restructuring, and surviving. In short, they are viable.

Moreover, with appropriate public and private cooperation, significant segments of an industry may find that they have a future. Our food industry--surely our oldest--is an example. With the 200-mile limit to back them up and new infrastructure to support them, the Boston, Gloucester, New Bedford, and Cape Cod fishing fleets have turned decline into growth. The land-slide fish processing industry has seen a wave of new investment and new jobs. Other food manufacturers have also reinvested. The West Lynn Creamery has expanded five times in a decade. H.P. Hood has decided to stay in Charlestown and modernize, with public help, its corporate headquarters and main dairy facility. Ocean Spray has grown dramatically in Plymouth County.

Yet it is equally true that whole industrial segments, and dozens of firms within them, are losing ground inevitably to the realities of changing market conditions or failing management. This Commission does not want to "prop up losers" or "save the dinosaurs."

The Governor asked us to take a balanced approach; specifically, we were directed to explore four areas of concern:

1. How can public and private resources be used to help healthy industries modernize and grow?

2. How can the plight of troubled firms be addressed more effectively--particularly in that critical minority of cases in which a viable business and the jobs it provides can legitimately be saved?

3. How can we better cushion the impact on workers, families, and communities when plant closings and other major dislocations of employment truly must occur?

4. How can the state, within recognized limits, help guide the on-going transition in our economy, especially in those older industrial regions where the combination of rapid decline in mature industries and slow growth in high technology could inflict the most severe social and economic costs?

The work of the Commission, and the recommendations it hereby presents to the Governor, are based on these four concerns.

In the course of the Commission's deliberations, three general propositions have become apparent to the members. First, the deeply emotional issue of plant closings has proven to be, in quantitative terms, a relatively minor one--"a small problem in search of a small solution," as one member put it. But plant closings are devastating events in the lives of the families and communities they impact, and the struggle to find a public policy remedy has long been a barrier to more comprehensive thinking about mature industrial problems. In offering a negotiated solution to the plant closing issue, the Commission feels it has made a valuable contribution to a much broader agenda as well.

Second, we have learned that the demarcation between "mature industries" and "high technology" is fuzzy at best, and good public policies will recognize that reality. Many "mature industrial" firms will survive and grow by diversifying into new high-technology product lines, becoming suppliers for high-tech companies, adopting computer-based manufacturing processes when they modernize, or all of the above. General Electric/Pittsfield's new research and development venture in polymer plastics, and Morelli Shoe Company's installation of computer-operated assembly lines in its New Bedford plant, represent very different examples of this point.

And third, Massachusetts should not lose sight of the fact that it already does more than most states to assist

companies through specialized finance, site preparation, and training programs. While we have identified a few modest unfilled needs and recommended steps to meet them, much of what needs to be done involves better coordination and focus of our existing array of tools.

The Commission's work is in many ways only a beginning. Larger issues of maximizing industrial growth and industrial equity in Massachusetts remain. All of us look toward a Massachusetts economy that comes closer to full employment than is now the case; that provides higher wages to more of its workers; and that better distributes the fruits of growth and change among all regions of the state.

In the collaboration of the men and women who comprised this Commission and of the divergent interests they represent, we have laid a good foundation.

THE COMMISSION AND ITS WORK

STRUCTURE OF THE COMMISSION

The Commission's membership included 38 representatives of the business, government, labor and academic communities. The diversity of this group's interests and perspectives and the willingness of its members to work together toward common goals, speaks well for the Commonwealth's ability to address important economic issues.

The Commission began its work in the summer of 1983 with hearings in Framingham and Springfield. The Commission then broke down into three committees mandated in its charge from the Governor: the Industry Analysis Committee, which analyzed factors affecting businesses in mature industries; the Labor Market Policies Committee which examined employment and training issues affecting workers and firms in mature industries; and the Worker and Community Assistance Committee, which considered what could be done to prevent the closing of viable businesses and to minimize the impact on workers and communities when business closings are inevitable.

The Commission and its subgroups met over 30 times. Research work involved the integration of existing data on the state's economy, as well as some original data creation and analysis. Analytic work was supplemented by interviews with companies, labor leaders, educational institutions, members of the banking and finance industries, and officials of state and local government.

DEFINING MATURE INDUSTRIES

There are several ways to define "mature industries"--ranging from the chronological (the age of the industry)to the economic (characteristics of their end-use markets) to the technological (their level of research and development expenditures). The Commission's definition was simply all non-high technology manufacturing firms.

This somewhat arbitrary definition includes the following industries: food processing, lumber and wood products, furniture and fixtures, paper, printing and publishing, apparel, textiles, shoes and other leather products, chemicals, rubber and plastics, primary metal production, miscellaneous manufacturing (such as toys and sporting goods), some fabricated metal products (e.g., cutlery and handtools), some non-electrical machinery (e.g., engines and metalworking machinery), and some electrical machinery (e.g., household appliances). These traditional

manufacturing industries directly represent 60% of all manufacturing jobs and 15% of total statewide employment.

FINDINGS AND RECOMMENDATIONS

The Commission addressed a broad range of issues through its three main committees. Several findings emerged:

- Characteristics of mature industries

  - Although they have declined as a source of jobs, mature industries remain critical to the economic base of several regions of the state and to important parts of the state's workforce.

  - Mature industries face a number of challenges to their competitive environment, ranging from new sources of international competition to new generations of technology to shifting market demands.

  - Some industries have already gone through major shakeouts; others will continue to decline.

- Characteristics and costs of plants which have closed

  - A total of 67 facilities employing 12,368 people closed in Massachusetts between January 1982 and December 1, 1983. The industries accounting for large numbers of closings include apparel, shoes, and electrical and electronic machinery.

  - While plant closings are not presently a major statewide problem, some areas of the state (Gardner, Clinton, and New Bedford) were hit particularly hard. Such communities find it extremely difficult to rebuild their economic bases.

  - Approximately 44% of the workers affected by these closings got less than one month's notice.

  - It is often difficult for workers affected by closings to find new jobs comparable to the ones they have lost.

  - Maintaining health care coverage was a particular concern of these workers.

- Business strategies of successful firms in mature industries

  - Companies have integrated "high tech" into their businesses through developing products for high technology markets, integrating high tech equipment into their manufacturing processes, and using new high technology materials as inputs.

  - Firms have identified business "niches" which are shielded from international competition, which can be dominated by small companies, and in which quality and service are more important than price.

  - Well-managed companies have modernized their plant and equipment during periods of favorable business conditions.

  - Many firms have also invested in new products and processes to keep up with market changes and competition.

- State efforts to assist firms and workers

  - While much is currently being done in the areas of worker training and finance, more progress must be made to address the special concerns of workers and firms in mature industries.

  - A better understanding of dislocated workers and their needs is essential;it is clear that existing federal commitments are not sufficient to address this.

  - The state offers an unparalleled array of financing programs, aimed primarily at growing firms. However, there is no capability to fund new product development in traditional industries. In addition, our existing financing programs are not generally equipped to help restructure troubled but potentially viable firms.

From these findings emerge four major needs which the Commission's recommendations are designed to address:

- Helping viable businesses to modernize and grow

- Addressing the problems of troubled firms

- Cushioning the impact of plant closings on workers and communities; and

- Guiding a mature industrial economy in transition.

ORGANIZATION OF THIS REPORT

This report presents the findings and recommendations of the Commission. Much of the research work is included in the appendices. While the report draws heavily on them, they should be consulted for more detailed analysis of specific topics.

The report itself begins with a discussion on the decline of many mature industries, highlighting the special role they continue to play in the state's economy ("The Changing Massachusetts Economy and The Importance of Mature Industries"). The next chapter discusses some of the reasons mature industries are in decline ("Why Industries Decline: Factors Affecting Mature Industries"). The following chapter discusses how companies in mature industries have been able to succeed ("Growing Firms In Mature Industries: What Businesses Do To Succeed"). The fourth chapter considers the magnitude and impact of plant closings ("The Costs of Transition: Plant Closings and Mass Layoffs in Massachusetts"). The fifth chapter presents an overview of existing state programs to assist workers and industries, identifying ways in which they can be improved ("State Efforts To Assist Workers and Industry"). The final chapter of the report presents the Commission's recommendations.

THE CHANGING MASSACHUSETTS ECONOMY AND THE IMPORTANCE OF MATURE INDUSTRIES

In the aggregate, our mature manufacturing industries are in decline. In Massachusetts they represented approximately 35% of the state's jobs in 1950 and 15% in 1983, a drop of over 200,000 jobs. Growth in high technology industries, and in the service, finance, and trade sectors have provided new employment opportunities for the state (Exhibit 1). Yet this growth has not been able to fully compensate for the special roles mature industries play in the Commonwealth. (Appendix A, "The Massachusetts Economy and Mature Industries," expands upon the analysis presented here.)

Statewide statistics paint a prosperous picture of the Commonwealth when compared to the rest of the nation. The state's per capita income is above the national average and since 1978 the unemployment rate has been lower (although still high by historic standards). These averages, however, mask wide variations <u>within</u> the Commonwealth. Individual perceptions of the state's economy differ depending on where a person lives and in what industry he or she works. Unemployment rates for the first three-quarters of 1983 range from 3% on Nantucket to almost 12% for the Gardner, Athol, and Ware areas (Exhibit 2). Wage levels vary from 6% above the state average in Boston to 18% below in Fall River.

Much of this variation is due to the geographic concentration of industries within the Commonwealth. Almost 20% of the manufacturing jobs in the Brockton area are in the shoe industry; 40% in Fall River and 30% in New Bedford are in apparel; 40% in Worcester are in the machining trades and over 20% in the Fitchburg-Leominster region are in plastics. Thus, while mature industries have lost their dominance from a statewide perspective, they remain crucial to these and other communities (Exhibit 3). High technology industries have located primarily within the Route 495 belt around Boston. Because high-growth industries have not yet expanded on a significant scale into areas with declining industries, the state's economic prosperity has not been evenly shared.

Not only are mature industries important from a regional perspective, they are important as a source of jobs for important segments of the state's workforce. They employ a disproportionately high number of workers over the age of 45. Immigrants often get their start in the apparel and shoe industries. For workers with less than a high school education, manufacturing jobs typically offer a higher wage than the low-paying service sector jobs they would otherwise have to take. In general, workers with little formal education can more easily find career paths and opportunities

to move into higher paying jobs in mature manufacturing industries than in other parts of the economy.

The current distribution of manufacturing employment in the state shows the importance of several key industries. The "high technology" components of non-electrical and electrical machinery and instruments represent 40% of all manufacturing employment. The remaining industries, representing 60% of manufacturing employment, are what the Commission has defined as "mature industries" (Exhibit 4).

Patterns of employment have varied dramatically over time. Employment in high technology industries show dramatic employment gains between 1950 and 1983 of from 50% to 200%. Mature industries, even at this statewide aggregate level, have very different employment profiles. The textile industry had lost two-thirds of its 1950 employment by 1965. Current employment is 17% of that in 1950. Paper products, apparel, and chemicals have been declining since the 1970's. The shoe and food products industries have been seriously declining through the entire period. Stone, clay and glass; fabricated metals; and transportation equipment are highly cyclical industries which have shown little sustained growth over the 33-year period. The rubber and plastics industry has been fairly stable. Printing and publishing is the one mature manufacturing industry that has shown slow but relatively consistent growth (Exhibit 5).

For the most part, these trends are similar to those occuring nationwide. The United States has suffered a severe decline in its share of international trade in manufactured goods, dropping from 22% in 1966 to 15% in 1980. At the same time, import penetration in the U.S. market increased from 4% to 14%. Relative to other developed countries, the U.S. has sustained one of the most severe declines in manufacturing employment. The decline of the manufacturing sector is a national phenomenon.

Yet all of these industries contain highly successful, growing firms. Textile firms like the Kendall Corporation, food processors like the West Lynn Creamery, and printing machinery manufacturers like Compugraphic are promising examples.

Because mature industries are so important to particular regions of the state and groups of workers, it is critical that we identify and encourage opportunities for stability and growth. To this end, the Commission addresses some of the reasons for the decline of mature industries in the following chapter of this report.

WHY INDUSTRIES DECLINE: FACTORS AFFECTING MATURE INDUSTRIES

The decline in mature industries is a national and to some extent international phenomenon. Many have written on its causes. They range from macroeconomic factors driven by government policies, down to relationships between managers and workers on the shop floor. This chapter discusses several of the forces which mature industries confront in trying to remain competitive. Its purpose is to provide a context in which to discuss how the public sector might appropriately assist industry and is therefore only a brief summary of issues which businesses must face. Those issues fall into three catagories: macro-economic and international factors, regional factors, and firm-specific factors.

MACRO-ECONOMIC AND INTERNATIONAL FACTORS

In a recent study by Data Resources, Inc., The DRI Report on U.S. Manufacturing Industries, several macro-economic causes for the decline of U.S. manufacturing industries were presented. They included the overvaluation of the U.S. dollar through much of the postwar period; extreme business cycles which affected business willingness and ability to invest; tax and regulatory policies which directed savings away from productive industrial investment; trade policies which favored imports; and high capital costs both in absolute terms and relative to other countries.

As a result of these forces, many companies have found it difficult to remain competitive. As part of its work, the Commission conducted studies of selected industries in the state and saw evidence of the local effects of these factors. Appendix B ("Industry Studies") details the results of this work. Of particular importance were the effects of imports from low-wage countries in industries such as shoes, apparel, and some segments of the metalworking machinery industry. In addition, swings in the business cycle are having a serious impact on the machine tool industry. Made up of smaller companies, this industry has found it difficult to adjust to variations in demand of as much as 100% in relatively short time frames. The inability to meet explosions of domestic demand contributed to providing an entree for Japanese manufacturers who were able to produce to inventory so they could offer U.S. customers much prompter delivery dates than local manufacturers.

REGIONAL FACTORS

In addition to these macroeconomic and international forces, companies in Massachusetts must deal with factors which differentially affect them vis-a-vis competitors located elsewhere in the U.S. Regional factors are those

related to the specific geography, relative location, existing infrastructure, and governmental actions in a particular locale. A business located in Massachusetts faces some competitive advantages and some drawbacks; for different industries, this mix may be more or less important.

In "The Massachusetts Agenda, 1983: A Competitive Assessment of Our Economy", the Massachusetts Business Roundtable listed nine concerns facing the state from industry's perspective. They include taxation, government expenditures, public pension funds, hazardous waste, energy costs, transportation, education, health care costs, and employee compensation.

Progress is being made in several of these areas:.

- While state and local taxes as a percent of individual income were higher than the U.S. average for many years, they have recently fallen below the national average.

- Our roads, bridges, and other transportation facilities are in serious need of repair and, in many cases, replacement. Funding for infrastructure development has not kept pace with the need. The proposed creation of a state infrastructure bank (MASSBANK) is in response to this reality.

- A comprehensive overhaul of the state's pension funding system was begun in 1983.

- Although Massachusetts health care costs remain well above the national average, the state has embarked on a major initiative to contain and, in relative terms, reduce them.

In other areas, there are still problems. In 1982, energy costs in Massachusetts were 21% higher than the national average. While there are not many energy-intensive industries in the Commonwealth, those which are here, like the paper industry, are at some competitive disadvantage. Moreover, virtually all nature industries suffer disproportionately from high energy costs.

On the positive side, Massachusetts has one of the best educated workforces in the country. In addition, several companies interviewed in the course of the Commission's work commented on the high productivity of Massachusetts workers.

Some aspects of the state's geographic location are a plus for its businesses: it is within one day's drive to over one-third of the U.S. market and two-thirds of the Canadian market.

FIRM SPECIFIC FACTORS

In many cases, a firm's inability to respond to macro-economic or regional factors stems from firm-specific issues involving how the company is owned or operated. In general, they relate to ownership structure, size, management capabilities, and labor relations.

Ownership Structure Issues

The Commission found examples where corporate ownership of Massachusetts businesses was of great importance in the continued growth of the businesses by providing investment capital, access to new channels of distribution, and complementary product lines. It also found examples where corporations did not invest in local businesses and "milked" them for their profits. Members of the Massachusetts financial community reported to the Commission that it is sometimes the case--especially in mature industries--that companies are purchased in order to gain access to customer lists and respected brand names. As a result, local manufacturing operations are then closed down.

Companies which are independently owned and run face the problem of ownership and management transition when the owner retires. In some cases, such companies are sold for their non-tangible assets as described above. In other cases, new owners cannot be found and an otherwise viable business closes.

Size Issues

Smaller companies in traditional industries often find it difficult to remain competitive with their larger competitors. This is due to several factors. New cost-saving technologies are sometimes unsuitable to smaller operations. CAD-CAM pattern graders in the shoe industry, for example, are only cost-effective for companies producing many different styles of shoes. Advances in stitching technology will benefit large apparel manufacturers with long run lengths of similar styles.

Overhead costs which typically represent a larger percentage of total costs for smaller companies, can be a problem. Particularly in urban areas like Boston, smaller firms cannot sustain escalating rents. The costs of regulatory compliance also can be hard for these firms to absorb.

Smaller companies also often have limited management resources. The apparel industry in Massachusetts, for example, has a number of small firms where the owner is also the manager who sometimes has to sit in for absent workers to make a day's production. They have little time to upgrade manufacturing operations or find new market opportunities.

Finally, smaller firms may also have more difficulty in accessing necessary capital.

Management Actions

The Data Resources study which detailed many of the macroeconomic factors affecting industry also determined that many companies responded to them by favoring acquisitions over investment in their base businesses. They emphasized short-run profitmaking over longer term investment strategies, and mismanaged relationships with their workers.

The Commission found examples of the disasterous effects of short-run profit maximization in the face of competition from companies in developed countries in its industry studies. The recent history of the Massachusetts textile machinery industry provides a classic example of this type of corporate behavior.

The textile machinery industry was once dominated by innovative Massachusetts firms like Whitin Machine Works, the Saco-Lowell shops, Draper Looms, Crompton and Knowles and Davis and Ferber. With the 1983 closing of Davis and Ferber, not one of these companies is now manufacturing in Massachusetts. While the entire domestic industry has been affected by the recent recession, it has also lost share of the U.S. market to imports. Today, almost 50% of the domestic market is held by imports from primarily high wage countries such as West Germany, Switzerland, Italy and Japan.

The reason for the success of these imports is due to foreign investments in new generations of machinery while American manufacturers were making only marginal improvements to their equipment. In part this was because designing new equipment is expensive and somewhat risky. In part it was because U.S. manufacturers could make more money in the short-run by building up their spare parts, repair and accessories businesses. As a result, the invention of water and air jet, rapier and projectile looms and ringless spinning machinery by foreign competitors revolutionized the industry and left American manufacturers far behind.

While it is not the Commission's role to assess the management capabilities of corporate decisionmakers, it is important to note that it found examples of companies in traditional industries where management was "mature" in the sense that they had not adapted to changes occuring in their businesses. Attitudes and procedures which worked for so many years are difficult to put aside or recognize as no longer appropriate for the competitive climate of the '80s.

Locational Issues

While not always the case, many firms in traditional industries are located in older facilities or in communities that can present special problems. Older manufacturing plants can be less efficient than newer ones for many reasons. They may not be energy efficient; they may be multi-level with a less than optimal plant layout; they may require substantial investment in order to meet environmental and worker safety regulations. In a more general sense, they may not have room to expand; access to roads may be poor; city services may not be sufficient to justify significant expansion. Rectifying such problems may be too expensive for some firms or communities. As a result, some firms may be put at a competitive disadvantage or be forced to move.

CONCLUSIONS

Many of the factors affecting mature industries are the result of national and international factors which cannot be addressed by an individual state. Some locational factors can be addressed by state government and others are the result of the actual geographic location of the place. Firm-specific factors are by their nature the responsibility of companies and their workforces.

When companies close and there are no new businesses to take their place, workers and communities suffer. The next chapter of this report looks more closely at the recent history of plant closings in Massachusetts and their effects on workers and communities.

THE COSTS OF TRANSITION: PLANT CLOSINGS AND MASS LAYOFFS IN MASSACHUSETTS

When a business closes and new firms are not at the fore to utilize local assets, workers and the community at large must find ways to adjust to the loss of employment. The worker who has lost his or her job bears the brunt of the adjustment, but the community at large must also respond.

In order to understand the nature and magnitude of plant closings in Massachusetts, the Commission conducted a survey of plants with over 50 full-time employees which had closed between January 1982 and December 1983. Appendix C, "Plant Closings and Mass Layoffs in Massachusetts," presents a detailed review of this analysis.

If anything, the Commission learned that every plant closing is different. Yet two general situations characterized many of the closings. The first represents many apparel, textile, and shoe companies which had to contend with aging owners, old and inefficient mill buildings, concerns of their workforce, and import competition. These companies were typically locally owned, one-plant operations. They went out of business because of management's inability to adjust to very difficult market conditions. Some of these companies had been marginal operations for some time, unable to afford upgrading their equipment or marketing efforts. In many apparel firms, the owner is the manager and sometimes has to fill in for absent stitchers to meet daily quotas. This leaves little time to look for new markets or cost-saving measures. The loss of a major customer or an inability to cut costs can, and have, precipitated closings.

The second type of closing occurred in corporate subsidiaries closed by the parent, as part of a consolidation or relocation of manufacturing operations. Many of these companies were in the metalworking, machinery, and electrical equipment industries. In many cases, it was clear that the parent company had been disinvesting in the Massachusetts subsidiary for some time and the closing was the final step in the disinvestment process. In other cases, there had been a real attempt to make the Massachusetts establishment a viable business; but market forces and/or more favorable manufacturing conditions in other corporate facilities led to the decision to consolidate operations elsewhere.

THE MAGNITUDE OF THE PROBLEM

The findings of the Commission's own research on plant closings which occurred in 1982 and 1983 in firms of over 50 full-time employees can be summarized as follows:

- A total of 12,368 jobs were lost in the 67 plant closings that occurred. This represented .5% of the state's total employment base.

- Over 90% of the closings involved manufacturing facilities.

- Regions of the state were differentially affected by the closings. Ware lost 7% of its employment base to closings during this period; Gardner lost 4%; and Clinton and New Bedford each lost 3%. In absolute numbers, the Boston area lost the most jobs, but they represented less than .3% of its employment base.

- Apparel and leather products accounted for 25% of the job loss and 32% of the closings (Exhibit 6).

- Of those workers for whom layoff notice could be determined, 44% received less than one month's notice, 27% received between one and three months, and 29% received over three months.

- A study of permanent and indefinite layoffs occuring in the 8 month-period between January and August of 1983 showed that 11,696 people were laid off from 72 companies. Over half of these workers were in the high technology sector.

- In a survey of 25 of these firms, significant notice of the layoff was much less prevalent than in plant closing situations. However, the firms tried to maintain ongoing relationships with their workers because they expected to rehire them at a later date. In fact, many firms had begun to recall their workers by December 1983.

Concern with plant closings grows out of the costs of industrial decline on communities and the loss of jobs on workers. If new employment opportunities existed to take the place of departing firms, the problem would not exist. However, the areas of the state hardest hit by closings are these which have especially high unemployment rates. Growing firms have not moved in to take their places.

Concern over the provision of notice of closings grows out of two points. The first is that with time, it is sometimes possible to find ways to turn the company around and maintain the business or find a new company to take its

place. The second point is that workers need time to adjust to unemployment, both pyschologically and financially.

THE COSTS OF ECONOMIC DECLINE ON WORKERS

"What do I do now? What am I supposed to do? I been to all the big corporations. They're not hiring. I don't have the qualifications. Am I supposed to take a $5 cut in pay? Do I stay on unemployment? Maybe I convinced you that I'm a hard worker and a fast learner, but is that good enough to get me a job? What does my family do? My whole family is out of a job." "It's difficult to look for a new job when you know that the only jobs available pay a lower hourly wage, require travelling out-of-town and working a second shift."

Such are the comments made by recently laidoff workers, the first from a man hearing he had been laid off at his Revere Sugar job, quoted in the Boston Phoenix; the second from a woman who had worked at the same Clinton, Massachusetts company for 30 years before it closed. A fellow worker of hers, a machine tool operator for 17 years, is now working as a janitor. Many others have remained unemployed for several months since they lost their jobs.

The term "dislocated worker" has been used to describe experienced and usually skilled workers who will have difficulty finding employment opportunities utilizing their existing abilities. According to national studies, these people are often older members of the workforce with several years seniority, have little formal education, had relatively high earnings and a high occupational status.

These characteristics, while valuable to workers in their former jobs, often work against them when they search for new employment. Companies often do not want to hire older workers, nor pay them as much as they were making. In addition, benefits packages are often less, because the worker has no seniority in the new job. As a result, some studies indicate that dislocated workers are unemployed for long stretches of time, and when they are reemployed, it is in jobs paying substantially less than former positions.

Dislocated workers often have severe reactions to unemployment. A number of studies show that these workers suffer from increased psychological stress due to losing jobs which they often held for decades. Many have not had to search for a new job in several years and do not know how to go about it. Family problems often develop due to the economic and psychological affects of seeing their skills no longer valued by society.

One of the most critical problems faced by unemployed workers is the loss of health insurance benefits. According

to a Congressional Budget Office Study, about 75% of full-time wage and salary workers are covered through employment-related group health plans, often in-part or fully paid for by the employer as part of a benefits package. The cost of continuing this coverage, once unemployed, can be prohibitive: the same study found that in 1983, the average monthly family premium for employment-based insurance is $135, or about 28% of the average Unemployment Insurance benefit.

Dislocated workers do not qualify for health care services through Medicaid, because family assets often exceed the limit allowed under Aid For Families With Dependent Children (AFDC) or because income from other sources, such as spouses' income is too high. Single people and childless couples who are not aged, blind, or disabled, regardless of income, cannot qualify for Medicaid.

While it is difficult to present a systematic picture of the effect of dislocation on Massachusetts workers and their families, two studies which considered workers in Massachusetts and Connecticut confirm the findings of national studies. The United Electrical Workers Union Local 276 formed an Unemployed Council in the Athol-Orange area and surveyed 200 unemployed workers in the spring of 1983. They found that 65% of the workers had no health care coverage. In addition, 35% were delinquent in their utility payments and 39% were delinquent in their rent or mortgage payments. Social service agencies in the region reported a 63% increase in new cases.

UAW Region 9A, in conjunction with the Boston College Social Welfare Institute, conducted an intensive study of 105 people from Massachusetts and Connecticut who had experienced long-term or indefinite layoffs. While 22 of the workers were employed in the auto industry (the Framingham GM facility), the remaining 83 were employed in non-auto related manufacturing firms. These workers fit the profile generally associated with dislocated workers: 72% were male and 28% female, the average age was 47, with 58% of the workers 46 years or older. Sixty-three percent of the workers lost their employer-paid health insurance. Twenty-two percent were not covered at all by health insurance while they were unemployed. Twenty-four percent exhausted their life savings during their unemployment and 50% used up half or more of their savings to tide them over. Of the workers who found new employment, the new jobs paid on average 20% less than their prior positions and had reduced benefits, especially with regard to health insurance coverage. The term "skidding" is applied to this phenomenon of workers taking lower paying positions because no others are available to them.

While there are no rigorous estimates of the number of dislocated workers in the state, the Commission staff's extrapolation of the data that is available suggests that the range is between 20,000 and 40,000, and even higher if those reemployed at lower paying jobs are included.

THE COST TO THE COMMUNITY AND THE COMMONWEALTH

When a major employer in a community closes, the effects go beyond those on the former workforce. Spendable income in the community drops, affecting merchants; and local suppliers may have lost a major customer. As a result, the employment impact can be greater than just the direct loss of jobs. In one recent plant closing situation in the state, the loss of a major electricity user resulted in increased utility rates for the community. As indicated in the Athol-Orange study, local social service agencies must respond to a growing client base. In areas experiencing one major or a series of closings, the tax base will be affected. Chicopee, Massachusetts lost $500,000 in tax revenues when the Uniroyal plant closed.

A study was conducted by the University of Massachusetts on the potential impact of the closing of Adams Printworks, a firm which was subsequently turned around through state intervention. The study found that in addition to the direct loss of 577 jobs, 340 additional jobs would be lost in Berkshire County and 160 more statewide in the services, trade, transportation, finance, and public utilities sectors. Using an economic model, the study estimated that this total job loss would result in a $3 million cost to the state in lost federal, state and local tax revenue; and a $3 million increase in government transfer payments in 1983 alone. Costs were projected to be lower in future years, but were expected to extend out for some time.

Quickly bringing new employment opportunities to the community would minimize the costs of a plant closing. However this is not a realistic short-term option for many of the Commonwealth's cities and towns. Many communities do not have economic development officials to work on attracting new firms to the area. A recent survey of the reuse of 44 facilities vacated due to plant closings showed that these facilities were generally newly occupied by firms already located in the community who needed space for expansion. In a community with few expanding firms, finding new sources of employment becomes more difficult.

Even in communities with active development programs, revitalizing the local economic base can be extremely difficult. A study of Clinton, Massachusetts, by a Tufts University graduate student group provides an example. This central Massachusetts community has seen the coming and going of its textile and wire industries over past decades. In

more recent years, Clinton has suffered from two major and other smaller plant closings. Since 1977 the Colonial Press (later the Clinton Cooperative Press), then the town's largest employer, and Ray-O-Vac have closed.

In 1978 the town formed a task force for economic development and shortly after, funded an Office of Community and Economic Development. Despite raising over $5 million in state and federal funds and issuing $16.9 million in industrial revenue bonds over the intervening years, Clinton's manufacturing employment and average earnings in 1982 were below 1977 levels. Public funding generally led to increased employment in the relatively low wage plastics and non-manufacturing sectors. In some cases, employment levels committed to by firms receiving public funds have yet to be met.

Clinton's experience exemplifies the problems many Massachusetts communities face in economic development. Like many of the small towns in the Commonwealth, its location, highway access, and labor force are not attractive to many growing high technology firms. Over the long run, adjustment may take the form of a declining population. In the short term, there are few opportunities for reemploying dislocated workers.

CONCLUSIONS

In summary, from a state perspective, plant closings are not currently a major problem in Massachusetts. However some regions of the Commonwealth have been drastically affected, as have workers who have been unable to find new jobs comparable in pay and benefits to the ones they have lost.

The strength of the state's overall economy attests to the ability of most companies in mature industries to develop successful businesses. The next chapter of this report summarizes some of the ways in which they have been able to achieve this.

GROWING FIRMS IN MATURE INDUSTRIES: WHAT BUSINESSES DO TO SUCCEED

As mentioned earlier, there are many firms in mature industries doing quite well in the Commonwealth. They have become successful for many reasons. In this chapter, the Commission highlights three aspects of successful business strategies used by firms in the state. They are:

- integrating high tech within a mature business
- developing "niche" strategies; and
- investing in new technology and products.

INTEGRATING HIGH TECHNOLOGY WITHIN A MATURE BUSINESS

Conventional wisdom differentiates high technology firms from "mature" or traditional industries. However, the distinction between "mature" and "high tech" begins to blur at the company level. The Commission found many cases in which companies in mature industries had characteristics generally attributed to high technology companies: aggressive management, high levels of research and development, and a changing technological base.

Progressive managers of companies in traditional industries have found ways to integrate various aspects of the high technology sector within their businesses. In more specific terms, there are at least three ways in which what is usually considered to be "high tech" affects mature industries: through providing new market opportunities, new manufacturing technologies and through providing new materials.

The computer industry has opened up new market opportunities for the plastics industry through its demand for computer casings and other components, for the metal trades through its demand for wire and cables, as well as for other industries. The Kendall Corporation, a nonwoven textiles company is now manufacturing the covers for software diskettes in Massachusetts.

New manufacturing processes have developed in mature industries utilizing computers for inventory control, work scheduling and other tasks. Computer aided design (CAD) has been introduced in the shoe industry in the form of pattern grading equipment that allows shoe manufacturers to more efficiently produce patterns for the range of sizes needed for a new shoe style. Process control equipment for textile manufacturing has improved the quality of fabric production.

New plastics compounds with improved characteristics allow the plastics industry to offer new products which are

cost competitive with other materials such as wood, metal or glass.

DEVELOPING "NICHE" STRATEGIES

In many industries, Massachusetts once was the home of major industry leaders. Many of the remaining companies in mature industries are still here and thriving because they have identified small markets in which they could effectively compete.

The Massachusetts textile industry provides many examples of successful "niche" strategies, where a company can dominate a small market. Lower labor and energy costs in the South attracted New England's major textile mills decades ago. The textile companies which remain are those in which quality and service to the customer are more important than the lowest price, or in which local companies have a technology or scale advantage in a market too small to attract major competitors. One Massachusetts firm has 40% of the world market in fabric for ladies' "foundation garments". A handful of Massachusetts firms together represent 60% of U.S. production in wool felt.

Shoe companies sometimes follow similar strategies. Imported shoes now represent over 60% of the non-rubber footwear purchased in the United States. While it is becoming increasingly difficult to manufacture a cost-competitive low or mid-priced shoe in the U.S., some Massachusetts manufacturers have been able to focus on high-priced men's shoes or baby shoes. These represent relatively small markets which have, so far, been somewhat shielded from imports.

Apparel companies in Massachusetts also follow niche strategies. Apparel contractors (who stitch garments for other manufacturers' brands) have been able to find business opportunities in higher-priced ladies sportswear, where quick delivery time on reorders is critical, making importing a risky affair. Higher labor costs are offset by the ability of firms to produce quality garments and deliver them on time to the market. Clothes with the labels of Anne Klein, Jones of New York, Ellen Tracy and College Town have been manufactured in Massachusetts.

INVESTING IN NEW PRODUCTS AND TECHNOLOGY

Given the changes occuring in markets and technology, successful companies are often the ones most willing and able to risk investing in new ideas. Innovation and risk taking are often the keys to success in mature industries as well as in high technology business. Many Massachusetts firms take this path. For example, Tweave is a textile company with expertise in weaving stretch fabrics. After years of

investment in research and development, they have developed a way to weave stretchy upholstery fabric. This will allow furniture manufacturers to inexpensively produce designs that up until now have been the preserve of very high-priced imported pieces requiring careful hand-fitting of the fabric covering. Easco Moore has recently made major investments in both their manufacturing process and their marketing and sales programs to be able to maintain their position in the handtools market.

The printing machinery industry, discussed in more detail in the "Industry Studies" Appendix, is a Massachusetts success story due to the willingness of the newspaper industry to finance the development of new printing technologies by what was once a small Massachusetts firm--Compugraphics--and is now an industry leader.

There are other contributing factors to the success of Massachusetts firms in mature industries: a productive workforce; lean, cost-efficient operations, and a responsiveness to changing market conditions. Companies themselves are the ones best qualified to identify and carry out these elements of a successful business strategy. Public sector actions come into play in a supporting fashion.

STATE EFFORTS TO ASSIST WORKERS AND INDUSTRY

Many of the problems faced by mature industries cannot be addressed by policies of state government. The state cannot affect the value of the dollar, remove trade barriers, equalize labor costs between Massachusetts and foreign competitors, prohibit businesses from closing, or require private companies to invest.

There is, however, much the state can do and is in fact doing, to promote the growth of mature industries and to minimize the effects of economic transition on individuals and communities. Existing state programs range from the Bay State Skills Corporation for training to quasi-public financial institutions and tax incentives which provide funds to many Massachusetts companies in traditional industries.

Although the Commission did not survey or evaluate all state programs, it did look in some detail at specific programs of special concern to mature industries, including employment and training programs, state financing programs and other programs to assist business. (See Appendix D, "Public Sector Resources for Businesses' Financial Needs," for a review of financing resources for businesses and Appendix E, "The State's Employment and Training System" for more detail on employment and training programs.) The Commission found that many of the pieces of a "mature industries strategy" are already in place. What is needed is a combination of a few relatively modest additions to the existing array of programs, and a much stronger effort to coordinate, focus, and market those programs we already have.

FINANCING PROGRAMS

The overwhelming proportion of capital and credit for business expansion and development is supplied by the retained earnings of corporations and by private sector financial institutions such as commercial banks, insurance companies, pension funds, leasing companies and venture capitalists. Private capital markets are extraordinarily diverse and respond quickly and efficiently to opportunities perceived to be profitable. This is especially true in Massachusetts where private sector financial institutions are particularly sophisticated and active.

Yet, even in such a financially sophisticated state, experience has shown that "capital gaps" can develop and persist. Sometimes, for a variety of reasons, the private sector fails to supply sufficient amounts of capital at acceptable market rates. The Massachusetts Business Development Corporation, for instance, was established in 1953 by the State Legislature to increase financing

opportunities for small and medium-sized businesses having trouble getting financing from conventional sources.

In 1977, during the first Dukakis Administration, a Task Force on Capital Formation identified several areas where private capital markets were not filling financing needs. This Task Force recommended the creation of a number of quasi-public financial institutions to supplement the one existing institution, the Massachusets Business Development Corporation (MBDC). The new institutions included:

- Massachusetts Industrial Finance Corporation (MIFA) to promote long-term, tax exempt plant and equipment financing available on a state-wide basis;

- Massachusetts Technology Development Corporation (MTDC) to increase the supply of venture capital to technology-based enterprises;

- Massachusetts Community Development Finance Corporation (MCDFC) to assist in the revitalization of depressed communities by investing with local community development corporations; and

- Massachusetts Capital Resource Company (MCRC) to provide intermediate and long-term, subordinated debt and equity to smaller firms.

Massachusetts has also made effective use of a number of federal programs that are available for industrial finance, including the Community Development Block Grant (through the capitalization of revolving loan funds and the creation of an Economic Development Set-Aside Small Cities program); the Federal Trade Adjustment Assistance Program; Urban Development Action Grants; and the Small Business Administration's 503 Program (Exhibit 7).

These programs increase access to capital without significant expense to Massachusetts taxpayers. MIFA's Industrial Revenue Bond Program qualifies firms for federal tax-exempt bonds, with no cost to the state. The UDAG, Trade Adjustment Assistance, Small Cities Set-Aside and SBA 503 Programs are all federally-funded. Massachusetts Capital Resource Company, capitalized by the Massachusetts insurance industry, is indirectly financed by the State through a tax reduction for the insurance industry. The only other significant state resources used have been one-time funding to CDFC ($10 million), MIFA ($10 million for loan guarantees) and MTDC ($2 million).

The state makes its most significant investment in business expansions through various tax credit programs.

Roughly $50 million a year in "tax expenditures" go to firms, mainly through the state's Investment Tax Credit. Such credits, like most of the quasi-public institutions, benefit profitable firms which are expanding or upgrading their plant and equipment. Unlike the programs mentioned above which select their own portfolios, tax expenditures are an entitlement program which can be used by every company making a qualified investment.

In general, the agencies are doing the jobs for which they were established. Each has adapted and modified its focus since 1977 in response to changes in the state and national economies and in the behavior of private capital markets. Most have identified and tried to fill particular roles and niches in the market place. Most have established strong internal systems and controls, are staffed by experienced professionals and work well with other public and private financial institutions. These programs have complemented, not competed with, private market financing and they address clear public needs.

Much has changed since 1977. Today, the specific and often unique problems of firms in traditional industries are much clearer and more pressing than they appeared in 1977. To some extent, the existing private, public and quasi-public institutions have adapted to the diverse financing needs of these firms--for expansion, modernization, stabilization, innovation, and ownership changes.

Massachusetts firms have access to a wider array of public institutions than companies in most states. An estimated $3 billion has passed through these institutions since 1978. These institutions open up longer-term and more subordinated financing to smaller firms than is generally available through commercial lending institutions. Given the importance of small and mid-sized companies expanding in the state, the breadth of innovative financing for such firms is welcome.

Special Needs of Mature Industries

Against this background of existing programs, the Commission identified three areas of special capital needs among firms in traditional industries in Massachusetts:

- affordable expansion capital for plant and equipment
- capital for financing ownership changes or high risk corporate turnarounds; and
- financing for the development of new product and process technologies.

It appears that between the private and public sectors, expansion financing is available for most credit worthy firms. The breadth and variety of existing financing mechanisms is encouraging. MIFA's proposed new Guaranteed Loan Program has the potential to open up an additional $300 million to smaller firms having trouble accessing long-term, fixed-rate debt. More aggressive marketing of the MIFA Mortgage Insurance Program would greatly enhance the ability of less credit worthy traditional companies to locate affordable fixed asset funding.

In the other two areas, there is still progress to be made. Leveraged buyouts have become a popular way for people with a direct stake in a conglomerate or family-owned firm to keep the company alive and make it grow when a change of ownership threatens its continuance. In the past few years, the Massachusetts Capital Resource Company and the Massachusetts Business Development Corporation have participated in a number of leveraged buyouts, helping management in older firms finance the purchase of their firms from owners, usually either a large conglomerate or a small family-run concern. But the number of such loans has been quite small.

An additional area of need is assistance for companies which could remain viable if restructured. In cases like Adams Printworks, when a plant is threatened with closing, the social costs to the state (measured in terms of lost tax revenues and increased social welfare costs) is often greater than the cost of helping the firm restructure. The existing resources--the quasi-publics and the CDBG-funded mechanisms for low-interest loans--are not in themselves equipped to take on the level of risk associated with such turnaround situations.

A final area of financing need identified by the Commission is that of financing for the development of new products. Investigations of plant closings in the state have uncovered examples of shutdowns where a lack of investment was cited as a cause. This underinvestment is sometimes due to the preceived risk of new product development in industries which do not have a history of such innovation.

None of the programs described in this report can meet this special need. The Massachusetts Technology Development Corporation could potentially make investments in product development. However, it is limited to investments in "technology-related" companies and its Board of Directors reflects this orientation. Specific programs designed to promote new product investment and reduce its risk is an area where increased public sector assistance could help revitalize some traditional companies.

This review of public sector financing programs points to additional issues of concern to public policymakers. First, although there is a good deal of cooperation among the state quasi-public agencies, there is no formal coordination or clearinghouse of information on projects.

Second, many businesses in the state still do not know about the availability of many of these financing programs. Although there have been some attempts to market these programs, more effort is needed. It is important that the state educate the financial, legal and accounting communities, as well as the companies themselves, to the existence of these programs.

Third, so called micro-businesses with financing needs of under $250,000 may have more difficulty in locating affordable fixed rate long-term capital. The high information and transaction costs associated with making very small loans limit the availability of funds to smaller businesses. A review of the quasi-public institutions revealed very few loans in the under $250,000 range.

Finally, the programs described in this report have all been chartered with specific public purposes, many related to state goals for job creation, economic development and revitalization of distressed communities. There has been no systematic assessment of the public returns from these uses of public resources. Although beyond the mandate of this Commission, evaluating these public returns is a critical step to any further program design for publicly chartered or funded programs.

EMPLOYMENT AND TRAINING RESOURCES

The Commonwealth's major employment and training (E&T) programs consist of a broad array of programs, 800 in 1984, some with overlapping goals and client groups and administered through nine state agencies or institutions. Excluded from this count are numerous programs conducted through local organizations and ones which are not part of an ongoing agency effort. Few of them are geared to the needs of dislocated workers (Exhibit 8).

Many of these programs were developed in response to separate federal mandates. The extent to which they have been successfully adapted to the special needs of the Commonwealth is unclear. They represent millions of dollars of resources, yet until the creation of the state's Office of Training and Employment Policy in 1983, there was no single effective coordinating body to assure that as a whole, they are focused, targeted, and interpreted. That effort is now underway.

The entire E & T system has recently undergone many changes. In the late 1970's, two new concepts regarding employment and training were developed. First, there was recognition of the importance of business involvement in program planning and implementation. Second, a distinct and growing group of workers needing special assistance, dislocated workers, was identified.

The recently enacted Federal Job Training Partnership Act (JTPA) reflected these two concerns. Under JTPA, local Private Industry Councils (PICs) including business and labor, as well as service provider representation, were established to advise Service Delivery Areas (SDAs) on labor market needs and ways to meet them. In addition, special funds (Title III) were allocated for assisting dislocated workers. At the state level, the Secretary of Economic Affairs established the Dislocated Workers Task Force in 1983 to develop an effective strategy for using the JTPA Dislocated Workers funds. The Commission has tried to complement the recommendations of this task force.

In addition to the JTPA program, the state has many of its own training programs, run by regional vocational-technical schools, community colleges, the Bay State Skills Corporation and apprenticeship training organizations. Given the potential of this system, the Commission has tried to identify ways to further strengthen the programs and to better address the problems of mature industries and their workers. As part of this effort, several factors emerged which constrain the effectiveness of these programs. They fall into the following categories:

- labor market information
- state-level E & T strategy
- coordination among service providers
- sufficient funding levels.

Labor Market Information

Any effective planning of E & T programs requires accurate statistics on current and future labor demand and the numbers of workers in various target groups. This information must be aggregated at the regional level to be useful. Currently the number of displaced workers in Massachusetts is not known. Efforts are being made by some of the PICs to gather this information. The Division of Employment Security (DES) can help lagging PICs develop the data base they need to design programs.

In general, the labor market information collected by DES needs to be made more useable for program planners, employers and workers who rely on it. Some of the improvements are minor: publicizing existing data, including contact people on documents and reformatting existing data.

Others are more fundamental: creating regional data packages and instituting computer programs to track specific labor market trends and groups of workers for special studies or demonstration programs, particularly for economic development purposes.

State Level Employment And Training Strategy

Although it was not the purpose of this Commission to assess the purpose, goals and policies of the E & T system, it became clear during the Commission's work that the development of a state E & T strategy is essential. Resource allocation, of particular concern during this period of funding cutbacks, becomes critical as the system is now being asked to develop services for dislocated as well as disadvantaged workers. Service providers believe that improvements are possible in responding to the needs of both groups.

An overall strategy for the state is needed that responds to the needs of all groups of workers and assists planners who must make funding decisions in response to existing and potential labor demand. It must include consideration of the long-term unemployed, who are currently no longer covered by unemployment insurance and are therefore outside the system. This is a matter that should be addressed at the highest state level, requiring the participation of all major E & T providers. The State Job Training Coordinating Council is an appropriate group for such strategy development; it is the policy making body for JTPA and advises the new Office of Training and Employment Policy.

Coordination Among Service Providers

The need for effective coordination of programs is evident from the agency descriptions. Even though there are funding relationships and some cooperation among agencies, improving this could mean more effective use of resources and better service from the clients' point of view. At the local level, the PICs are in the position to provide this, by maintaining relationships with agencies within their regions. At the state level, coordination should be a result of a coherent E & T strategy.

Sufficient Funding Levels

The state has developed a three-pronged approach to assistance for dislocated workers: intervention at the time of a plant closing or major layoff; establishment of ongoing worker assistance programs for the long-term unemployed; and experimentation with job creation through its Cooperative Regional Industrial Laboratories (CRIL) Program which seeks

to harness the knowledge of laidoff workers in selected industries for new business ideas.

Current funding is a combination of 1983 and 1984 JTPA monies. With two years' worth of federal funds, only five of the eight regions of the state with unemployment rates 120% of the state average have worker assistance centers. One CRIL project has been established, with two on the drawing boards, but with no source of funding. In addition, there is currently no source of funds to implement any of the ideas the CRIL projects are expected to develop.

While there are no good estimates of how many of the state's unemployed are dislocated workers, the number is probably in the 20,000 to 40,000 range. Costs for assisting them range from a few hundred dollars for helping with job search skills to a few thousand dollars for retraining. As yet it is too early to tell how many need intensive retraining assistance.

Existing funding levels are too low, especially since federal funds for 1985 will not equal the combination of 1983 and 1984 funds currently in use. If the state is to make a serious commitment to dislocated workers, federal funds must be supplemented with state monies.

OTHER STATE ASSISTANCE TO BUSINESSES

The state also has an extensive network of business assistance programs within the Department of Commerce and Development, the Executive Office of Communities and Development, and the Governor's Office of Economic Development that provides a broad array of services to the business community.

For the most part, state assistance programs have focused on promoting the expansion of existing in-state businesses, supporting the development of new enterprises, and attracting new industries to the state. Given likely sources of job growth, this is the most effective strategy.

The state has, however, been brought into situations where a firm is on the verge of closing. In few of the cases could the closing be prevented. However, the Commission found that there are situations where concerted efforts by the community and the state can revitalize an ailing firm. The Commission heard testimony on the case of Adams Printworks, in North Adams, Massachusetts. This company was closing because of a history of poor management and a severe recession in the textile industry. A study by private consultants found that the business itself was viable and that new management could lead to a successful turnaround. With community and state assistance (and CDFC taking a leadership role) new management was found and the company was

financially restructured. As a result, the firm is making progress towards a successful turnaround, although the outcome remains unclear.

Increasingly, the state is being contacted by firms in trouble. Often it is too late for the state to help. More time is needed to find stronger management, new owners, or a suitable financial package. In other cases, like Adams Printworks, existing programs could be tapped for assistance. The state's efforts, however, have until recently consisted of uncoordinated attempts at crisis intervention.

In response to the need for a more coordinated approach, the Massachusetts Economic Readjustment Team (MERT) was established in 1983 as a first step in designing a business assistance service with the primary objective of job retention. MERT has two purposes: to provide leadership for the public sector in situations where a firm's future is threatened, and to coordinate state assistance to employees in the event of a plant closing.

Although MERT is an important initial step, it has had limited success in preventing plant closings. MERT's efforts have been constrained by the lack of resources and specialized staff. In addition, MERT often does not find out about a troubled situation until it is too late to provide any effective assistance. The Commission addresses these problems through its recommendations for a Massachusetts Industrial Service.

CONCLUSIONS

Massachusetts offers a wide array of employment and training and financing programs to assist industries and workers. The state's growing businesses receive the lion's share of attention. While existing financing programs offer a wealth of resources to firms needing capital for plant and equipment expansion, there are no programs to assist firms in developing new products or processes. Nor is there a means of systematic assessment and assistance for firms that are in trouble. Moreover, the Commonwealth has only recently begun to develop coordinated approaches to employment and training issues. There is also a need for increased resources directed at dislocated workers.

RECOMMENDATIONS

The Commission on the Future of Mature Industries directed its recommendations at promoting industrial development and easing the burdens on workers, communities and businesses caused by industrial decline. All of the recommendations are offered in the spirit of promoting industrial well-being throughout the State. The Commonwealth recognizes fully the limited role available to state government in the arena of industrial change. But we believe that thoughtful, collaborative efforts by business, labor and government can make a difference.

When businesses find capital costs too high or new projects too risky to undertake alone, there is a role for the public sector to play when employment opportunities are at stake. When workers are laid off and find they cannot get comparable jobs because of their age or lack of training, public sector training efforts are called for. When companies find they must introduce new manufacturing processes, their workforces are a key factor in their successful implementation. When communities are losing a disproportionately large part of their economic base with no offsetting influx of new businesses, concerted efforts on the part of government to market new business locations to the private sector as well as companies' willingness to consider those new locations are essential.

At the heart of these collaborative efforts is the recommendation of a social compact among business, labor and government. The compact, discussed in more detail below, calls for cooperative efforts to foster industrial growth within the State and, where job losses occur, to deal with them in a productive and responsible fashion.

In designing these recommendations the Commission built upon the solid foundation of programs already in place in the Commonwealth. These include our existing employment and training network, quasi-public financing agencies, and a broad array of business assistance programs. Rather than create any new bureaucracy, the recommendations call for stronger efforts to coordinate, focus, and market existing capabilities and for modest additions to existing programs.

The Commission's recommendations include the following:

- <u>To help viable businesses modernize and grow:</u>
  - Three important new quasi-public financing mechanisms: MIFA's proposed Guaranteed Loan Program for industrial modernization and expanded use of the MIFA Insurance Fund for

higher risk industrial loans, and a Product Development Fund for existing firms seeking to bring new products to market.

- A state-level industry assistance capability within the Department of Commerce to target our available business development resources to industries with special problems and opportunities common to many firms.

- <u>To address the problems of troubled firms:</u>

  - A Massachusetts Industrial Service to coordinate on a case-by-case basis state efforts to evaluate and, when appropriate, assist troubled businesses which are potentially viable. In cases when businesses cannot survive, the Service will coordinate state efforts to reemploy the workforce and to find ways to reuse plant facilities. This will be housed in the Executive Office of Economic Affairs and jointly administered by the Secretaries of Economic Affairs and Labor.

- <u>To cushion the impacts of plant closings on workers and communities:</u>

  - A social compact among business, labor and government establishing the appropriate responses of the public and private sectors. The compact encourages advance notification and income maintenance on the part of employers and anticipates legislation extending employer-based group health coverage for ninety (90) days after a plant closing.

  - A Reemployment Assistance Program for workers who lose their jobs. This program includes on-site placement and counseling services as well as expanded and targeted retraining opportunities for displaced workers. Workers who lose their jobs in plant closings, receive less than ninety (90) days' notification or severance benefits from their former employers and participate in available reemployment programs will be eligible for a supplemental unemployment insurance benefit following the closing.

  - A thorough exploration of "short-time work" or worksharing for firms anticipating layoffs

or plant closings, in order to spread the burden of declining job demand.

- <u>To help guide a mature industrial economy in transition:</u>

  - A state level economic monitoring capability within the Executive Office of Economic Affairs to enable policy makers to follow changing trends in the economies of the state and its various regions.

  - An improved employment and training system which explicitly links the new Job Training Partnership Act (JTPA) mechanism to the problems of this state's on-going industrial transition. The reemployment needs of dislocated workers, and the workforce needs of viable businesses are priority concerns.

  - An Industrial Advisory Board consisting of the Secretaries of Economic Affairs and Labor, other appropriate public officials and representatives of business, the Massachusetts A.F.L.-C.I.O., the academic community and community leaders. The Board will help shape and monitor the implementation of the Commission's recommendations and will provide the Governor and the Legislature with a useful sounding board.

The following pages expand upon these recommendations and their component proposals.

EXPAND PUBLIC SECTOR CREDIT OPPORTUNITIES: THE MIFA GUARANTEED LOAN PROGRAM, THE MIFA INSURANCE FUND AND A NEW PRODUCT DEVELOPMENT FUND

The Commission's industry studies and in-depth discussions with business groups and members of the financial community revealed the importance of affordable and available credit in the effort of mature companies to remain competitive. Innovations which result in the development of new products can revitalize a company, as illustrated by the printing machinery industry here in Massachusetts. Such innovations are often quite risky and may require unconventional sources of financing. This is particularly true in mature industries where the venture capital market and Research and Development Limited Partnerships are not widely available sources of finance.

In addition, the Commission found examples of companies in mature industries who had the opportunity to expand but could not access traditional capital markets either because interest rates were too high to be supported by expected returns or because the company could not collateralize the loans to the degree required by conventional lenders.

<u>As a result of these findings, the Commission endorses pending legislation to create MIFA's Guaranteed Loan Program and considers this new method of MIFA lending to be of fundamental importance to mature industries. The Commission also supports the expansion of MIFA's Mortgage Insurance Program. Finally, the Commission proposes the establishment of a Product Development Fund.</u>

The new MIFA Guaranteed Loan Program has the potential to make up to $300 million in long-term, fixed-rate, debt financing available to smaller firms needing to expand or modernize their plant or equipment. While not reserved for mature industries, this new form of MIFA lending is expected to be of particular benefit to the states' mature manufaturing base, which has also dominated the traditional MIFA portfolio. The Commission strongly endorses Senate Bill 2021, which will establish the Guaranteed Loan Program and authorize creation of a separate Insurance Fund as described below.

The Commission recommends that MIFA expand its Industrial Mortgage Insurance Program to assist companies unable to obtain sufficient modernization or expansion capital from conventional lending sources. The provision of MIFA insurance for particular projects enables a bank to lend a higher percentage against the collateral value of fixed assets by reducing the lender's exposure by 20% to 40%, depending on the structuring of the arrangement. Thus,

mortgage insurance for either tax-exempt industrial revenue bonds or conventional loans can convince private lenders to "stretch" their loan commitments in support of important projects that will retain or expand jobs.

Pending legislation will reserve $2 million to support the insurance of up to $18 million in industrial mortgages. This amount in turn can leverage between $45 and $90 million in loans as private lenders will obtain a guarantee on only the riskiest portion of the financing.

MIFA should also review the performance of its existing Mortgage Insurance Program to determine if procedures need to be streamlined. In addition, it should launch an aggressive promotional campaign oriented primarily to bankers. MIFA should seek additional capitalization for this Mortgage Insurance Fund if early efforts generate sufficient expanded demand from traditional sectors of the economy for plant, land, and equipment financing.

Promoting new product development by companies is a way of supporting growth opportunities that can provide new sources of employment and continued profitability. In many cases companies themselves are able to bear the risk and cost involved in new product development and market introduction. For many high technology projects, research and development partnerships are available. But for other companies, funds for new product development are not forthcoming, either because the project involves a lower rate of return than competing projects or because the amount of money needed is less than what is feasible for structuring research and development limited partnerships. The proposed Product Development Fund would help fill this gap.

The funds could be used to provide assistance in the following situations:

- the introduction of new products by firms in industries with aging product lines
- the commercialization by Massachusetts firms of research efforts in the state's universities
- the development of new products by smaller companies who cannot access needed funds

It is not anticipated that companies requesting such assistance will be in direct competition with other Massachusetts firms.

The investments of such a program would more closely resemble venture capital than conventional equity or debt. Their purpose would be to share the risk with a company on a specific project. The investment, however, would not be in

the company but in the product. The state's participation in any one product should not exceed 25% of its total costs. Financing would be structured as a loan that gets paid back only when the project is successful,in the form of royalty payments based on the sales of the product. Return is therefore a function of how successful the product is. Similar programs in Connecticut and other countries have proven to be financially viable, generating significant returns. The Commission recommends an initial capitalization of $2 million, with a potential capitalization of as much as $15 million to be authorized as the Fund develops a track record and as a pool of eligible applications builds.

Such a fund would not break wholly new ground. The Massachusetts Technology Development Corporation, the state's public venture capital instrument for high technology start-ups, reaches companies not fully serviceable in the private market, but its portfolio, capitalized by modest state appropriations, has made money. MTDC also proivides financial and technical assistance to firms, enabling them to secure some or all of their needed capital from private sources, a role which the Product Development Fund should also play.

DEVELOP A STATE-LEVEL INDUSTRY ASSISTANCE CAPABILITY

The Commission's industry studies revealed that important issues often affect many firms in a single industry. While some programs take an industry perspective, this is a fairly new approach for state government. In some cases the appropriate role for government is that of a catalyst, identifying common problems among companies and helping them find joint solutions. In other cases someone sensitive to industry-wide needs can help focus existing public programs on those needs.

The development of such industry strategies should become an important focus for the state Department of Commerce. Possible industry-wide programs include the following:

- Supporting special industry-specific export programs. For example the state could bring together companies producing complementary goods to market the products overseas as a package. The Office of International Trade and Investment within the Executive Office of Economic Affairs has begun such efforts, investigating growing market opportunities in both developed and developing countries.

- Promoting economies of scale through joint purchase of specialized equipment, joint lease/purchase of a plant, or jointly sponsored research and development. Examples of such an effort could be promoting the joint purchase of computer-aided design (CAD) pattern grader by shoe companies or supporting efforts by small apparel or shoe companies to locate in a commonly-serviced incubator building.

- Promoting technology transfer by providing engineers with special expertise in production to consult with companies on technological changes, or through facilitating the transfer of relevant university research to an industry. Examples of this type of activity might include a continuation of the plant engineering assistance that the United States Trade Adjustment Act provided to the apparel industry.

- Seizing opportunities to change federal policies that impact particular Massachusetts industries, as the Commonwealth did in supporting the 200-mile fishing limit in the mid-

1970's; thus resulting in major expansion of the fishing and fish processing industries.

- Helping existing programs like those being developed through the Massachusetts Executive Office of Energy Resources to identify industries most likely to benefit from energy audits and conservation measures.
- Assessing the adequacy of equipment used in industry-specific training programs such as those for the textile sciences and machining trades.

ESTABLISH AN INDUSTRIAL SERVICE PROGRAM TO ADDRESS THE PROBLEMS OF TROUBLED FIRMS, THEIR WORKERS AND COMMUNITIES

It is axiomatic that some businesses die inevitable deaths--victims of poor management, disappearing markets, or competition from other states and countries. In many cases, there is nothing state government can or should do. Yet the Commission found that in some cases good manufacturing jobs can be saved through assistance to carefully selected firms. To that end, the Commission recommends creating the Massachusetts Industrial Service, to be administered jointly by the Secretary of Economic Affairs and the Secretary of Labor. Its purpose is to improve the state's responses to troubled-firm situations by managing them on a case-by-case basis.

Massachusetts has already taken a first step. The Massachusetts Economic Readjustment Team (MERT), established in 1983, was designed to coordinate state efforts in potential plant closing situations. The proposed Industrial Service builds on the foundations established by MERT, but with more comprehensive capabilities and expanded resources.

The Industrial Service will seek to manage troubled-firm situations through two distinct phases:

- Assistance to companies and potential buyers aimed at preventing the demise of viable businesses. One element of this assistance will be an Industrial Stabilization Fund to finance high risk corporate turnarounds and restructurings.

- Assistance to workers and communities when major businesses are lost. The Industrial Service will coordinate the Reemployment Assistance Program established in conjunction with the Social Compact and described further in a subsequent recommendation.

An Industrial Advisory Board composed of representatives of state and local government, business, and the Massachusetts A.F.L.-C.I.O. will provide direction and oversight to the Industrial Service. The Board will not be involved in the day-to-day operations of the Industrial Service, but will advise staff on program design, implementation, and general policy direction. The Advisory Board is also described in a subsequent recommendation.

Assistance To Prevent Unnecessary Job Loss

The first function of the Industrial Service is to try to prevent a firm from closing when the business is viable. The Commission clearly recognizes that some companies on the brink of closing cannot and should not be saved. The Commission distinguishes, however, between the company--a specific legal entity--and the business in which a company may be engaged. There are cases where a business may be viable as opposed to the company itself. For example, a subsidiary of a corporation may be profitable, but not profitable enough to meet parent company expectations. In other cases, new management may be the key to a successful turnaround. In still other cases, new owners may need to be found to buy out a retiring owner or family unable to sell a closely-held company. It is a primary objective of the Industrial Service to offer assistance in maintaining viable businesses in these types of situations.

The key functions of this Service are to help identify businesses facing the likelihood of serious employment loss; help develop strategies to solve specific problems; and suggest, coordinate, and sometimes provide resources to help in their implementation.

In addition to potential plant closings it would respond to the following situations:

- companies facing site specific problems which threaten their viability or their likelihood of remaining within the state;

- companies which could remain viable by exploiting new market opportunities or improving their production technology; and

- companies which could survive through a comprehensive restructuring and transfer of ownership.

For the Industrial Service to achieve its mission, it must have the trust of the private sector. To gain that trust the Servie must be able to respond quickly, effectively, and confidentially when its assistance is sought. Further, the expectations of what it is capable of doing must match the staff and resources it has available.

To be most effective the Service must be able to identify problems before they reach a critical stage. It must also be able to identify quickly those instances in which state assistance is useful, and determine appropriate strategies for those instances.

The Stabilization Fund: Associated with the Industrial Service's functions of assisting firms is the creation of the

Industrial Stabilization Fund to provide flexible, high-risk financing in corporate turnaround and buyout situations. While recognizing that financing is usually not the primary need for companies facing serious business situations--cost-saving measures, or new markets, management, and owners are typically more crucial--the Commission found that in some high risk turnaround or buyout situations, appropriate financing can be a critical factor.

There are currently no generally available sources of timely, high-risk capital for corporate restructuring. As a result, the Commission concluded that a new fund with an initial capitalization of $2 million is needed to complete the financing where a corporate restructuring or change of ownership for a viable business cannot be financed entirely from private and existing quasi-public resources. The fund may be capitalized from appropriations, monies provided by other quasi-public entities, Federal Economic Development Agency Funds, or the mature industries portion of the proposed Savings Bank Fund for economic development.

It is proposed that this Fund be governed by a Board of Directors responsible for approving loans. This Board would be appointed by the Governor and consist of the Secretaries of Economic Affairs and Labor, and a majority composed of private sector representatives who among them have financial skills, management experience, and special expertise with corporate turnaround situations. The Executive Director of the Industrial Service would oversee the operations of the Fund and work closely with the Stabilization Fund's Board of Directors.

In considering how the Fund should be organized, the Commission recommends the following:

- As in the case of other quasi-public finance corporations, the Directors of the fund should bear no personal financial liability for their actions. Their deliberations and the loan proposals they review should not be subject to Freedom of Information laws, so that confidentiality on the status of individual firms can be maintained. The Governor should determine if it is necessary to compensate the private sector Directors in order to enlist the best people and assure their availability to respond promptly when necessary.

- The Board of Directors should have the power to establish loan agreements requiring specific operational activities, financial actions or management changes as conditions for the receipt of loans from the Stabilization Fund.

- The Fund should be an extension of the Industrial Service and share its staff. The Directors should play a central role in staff hiring.

- Although it is hoped that the Fund will be self-financing, it is recognized that it will intervene in high risk situations.

- The Fund is intended to supplement existing financing sources including the MBDC, CDFC, MCRC, the proposed Savings Bank Fund, SBA loans and guarantees, and Community Development Block Grant-financed low-interest loans. In most cases the stabilization fund should be the "deal -maker" rather than the exclusive source of debt.

- The Directors should prepare an annual report of their lending activities, including the impact on direct and indirect employment, the nature,location, and pay level of the jobs created or maintained, and fiscal benefits to the state in tax revenues and the avoidance of social welfare expenditures. Future decisions of the fund's level of capitalization should reflect this broader concept of "return on investment."

<u>Worker And Community Assistance</u>

The second major funtion of the Industrial Service is to marshall state resources for workers and communities when a major business closing occurs. The existing MERT has brought together an interagency group with representatives from the Division of Employment Security, the Office of Training and Employment Policy, the Executive Office of Economic Affairs, the Executive Office of Labor, the Executive Office of Communities and Development, and the Governor's Office of Economic Development.

The coordination of state assistance in business closings should continue to operate on this interagency basis, with the Industrial Service in the coordinating role.

In the immediate aftermath of a plant closing, the Industrial Service will oversee implementation by the Division of Employment Security and the Office of Training and Employment Policy of the Reemployment Assistance Program for the affected workers. This is described in a subsequent recommendation.

To assist the community in formulating a longer-term response to the plant closing, the Service will bring other

agency resources to bear. For example the Department of Commerce and Development and the Governor's Office of Economic Development might help the community market the abandoned industrial site for productive reuse. The Executive Office of Communities and Development and the Governor's Office of Economic Development might work with local leaders to plan an economic recovery strategy for the city or town. The Executive Office of Economic Affairs, the Executive Office of Labor, the Division of Employment Security, and the Office of Training and Employment Policy would work together to plan for the long-term reorientation of the local workforce toward jobs with growing demand.

PROMOTE THE OPTION OF "SHORT-TIME" WORK OR WORKSHARING FOR FIRMS ANTICIPATING LAYOFFS OR PLANT CLOSINGS

The use of layoffs by firms can result in some workers going on unemployment while others maintain full employment. The use of "short-time" work, or worksharing, is an option which would spread the burden of declining job demand. Under a short-time work plan, instead of laying off some workers, a larger group of employees within a firm or firm unit would work reduced hours thereby sharing the decline in job hours. Short-time workers would receive unemployment compensation in proportion to their foregone wages.

Short-time work can benefit both employers and workers. It helps employers keep experienced, skilled workers available for recall. It enables workers to maintain their work relationships with only a slightly reduced income. In addition it enables workers notified of an upcoming permanent layoff to maintain some income while using their non-work time to search or train for new jobs.

There are several legal and fiscal issues related to short-time work which need to be resolved. First, where labor unions are involved, their consent is essential. Second, unemployment insurance regulations need to be modified to allow payment of partial benefits.

DES is currently examining the fiscal and legal aspects of implementing an option for short-time work in Massachusetts.

ESTABLISH A SOCIAL COMPACT TO ADDRESS THE ISSUES OF WORKER DISLOCATION

In its deliberations on how best to minimize the effects of plant closings and massive layoffs on workers and communities, the Commission confronted the issue of mandatory notice legislation. Such legislation has been proposed by organized labor for years as a way to cushion the blow resulting from massive and unanticipated job loss. The business community has opposed such legislation, contending that its passage would seriously damage the state's business climate.

The Commission first explored the magnitude of the problem over the past two years. Staff research showed that of the 8,500 workers who lost their jobs at the time of a plant closing, over 40% received less than one month's notice. Additional workers lost their jobs prior to the final closing of some facilities. The magnitude of the problem is small when compared to the size of the state's workforce, but the effects of a layoff or closing can be devastating to the workers and communities involved.

In its response to this problem the Commission pursued a cooperative approach which could directly address the worker and community issues without adversely affecting the state's business climate. The approach agreed upon was a social compact that addresses job growth as well as job loss.

Under the compact, the business community and the government of the Commonwealth agree to work together to improve state programs in the areas of economic development and job training. Business enterprises agree to work with the Commonwealth to maximize in-state plant expansions.

To minimize the disruption from plant closings and certain partial closings, businesses agree to provide their workers with the means to adjust to economic dislocation. Examples of such means include notification, severance pay, continuation of health care benefits and out-placement. Each firm will design its own method of dealing with the problem.

The compact anticipates legislation to continue group health care benefits for terminated workers for 90 days in case of plant closings or certain partial closings. This reflects the finding of the Commission that the loss of health insurance coverage is a major problem facing dislocated workers.

Finally, the compact provides that the state will establish a Reemployment Assistance Program which includes on-site placement and counseling services as well as targeted

and expanded retraining opportunities for dislocated workers. This program will be funded from general revenues or additional payments into the Unemployment Insurance System by firms with 50 or more employees, or both.

Workers who lose their jobs in major plant closings or partial closings, who receive less than ninety days notification and severance benefits from their former employers, and who participate in available reemployment programs will be eligible for supplemental unemployment insurance benefits. (The Reemployment Assistance Program is described in further detail in the following separate recommendation.)

The compact will be marketed aggressively by the state and its business organizations. Adoption of the compact's voluntary standards of corporate behavior for plant closing situations is proposed to become a prerequisite for participation in various quasi-public business assistance programs.

ESTABLISH A REEMPLOYMENT ASSISTANCE PROGRAM FOR WORKERS AFFECTED BY MAJOR PLANT CLOSINGS AND CERTAIN PARTIAL CLOSINGS

The Social Compact described in the preceding recommendation encourages companies who face plant closings to provide every affected worker with the maximum practicable combination of advance notification or income maintenance. The proposed change in the group insurance law would automatically extend existing group health insurance coverage up to 90 days for plant closing victims.

It is agreed by all Commission members that the principal short-term objective for these affected workers is reemployment in jobs as comparable in earning power as possible to those that were lost. For this purpose the Commission recommends the creation of a Reemployment Assistance Program which will combine an intensified, customized infusion of job counseling, placement, and training services from the Division of Employment Security and the JTPA system with a supplemental unemployment insurance benefit for certain eligible workers. The expanded employment services would be funded through general revenues; the supplemental unemployment benefits would be funded through general revenues in 1985 and in subsequent years either through general revenues or by additional payments into the Unemployment Insurance System by firms with 50 or more employees, or both.

Expanded Employment Services

The components of the program will include:

- Worker Assistance Centers - National experience with dislocated workers has confirmed the effectiveness of emergency assistance centers set up at the site of a major layoff or closing. The Massachusetts Dislocated Workers Task Force identified on-site centers as a major part of the state's efforts to assist dislocated workers, and this approach has been used in such recent closings as Parker Brothers, Revere Sugar, and the ECA Corporation.

  However, existing JTPA Title III funds are not sufficient for establishing both on-going centers throughout the state and emergency on-site centers in cases of large-scale dislocation.

- Improved Retraining Programs - Funding levels for retraining programs under JTPA for 1984 included monies from fiscal year 1983. Because

dislocated worker programs are a relatively new area for the Commonwealth's employment and training system, the financing for what amounts to experimental programs has been sufficient so far. Next year, however, JTPA funds are not likely to be sufficient to meet anticipated needs and must be supplemented with state funds.

Well designed programs in areas heavily impacted by plant closings will serve not only the immediately impacted workers but potentially other workers who are dislocated as a result of the ripple effects of the major closing.

Reemployment Assistance Benefits

To help workers dislocated by major closings and certain partial closings adjust to the loss of their jobs and undertake the effort to find new employment, the Unemployment Insurance System will provide a supplemental benefit during the adjustment period. When combined with normal unemployment insurance benefits this supplemental benefit will bring workers a maximum of 75% of their pre-termination gross wage, up to a cap of $97 in weekly supplemental benefits. The cap will be adjusted in the same manner as basic unemployment insurance benefits are adjusted to reflect changes in the state's average wage.

During 1985, the benefits will be available to workers who lose their jobs in a closing in which 90% or more of the workers are permanently laid off from a specific facility which employs 50 people or more. Workers employed by private for-profit and non-profit employers at facilities that have been located in Massachusetts for one year or more are covered. To receive the supplemental benefits, an employee must be eligible for unemployment insurance, and participate in the reemployment programs made available by the Division of Employment Security and JTPA.

Because many firms, in the spirit of the Social Compact, will provide workers with advance notification and/or severance benefits, thereby having the desired effect in "cushioning" the shock of massive worker dislocation, the supplemental unemployment insurance benefits will be prorated downward to reflect any notification and/or severance package provided by the firm.

Prior to January 1, 1986, the Director of the Division of Employment Security, in consultation with the Industrial Advisory Board, will identify and assess various categories of partial plant closings. Specifically, the following research issues will be examined:

- What is a partial plant closing?
  - staggered layoffs
  - permanent product line or process discontinuation
  - elimination of a shift
  - division shutdown
  - percentage of workforce reduction
  - other
- Relocation of a plant
- Permanent layoff definition:
  - when does an indefinite layoff become permanent?
  - when does a phased permanent layoff become a plant closing?
- Possible special treatment of LMA's with very high unemployment rates.
- Other

Effective January 1, 1986, the Director of DES will by regulation identify those partial closings that are deemed by the Director, in consultation with the Industrial Advisory Board, to warrant the same state response as a full plant closing. Workers who lose their jobs in the partial closings covered by these regulations shall be eligible for the supplemental unemployment benefits previously described, subject to appropriation.

The Commission believes that these Reemployment Assistance measures will help not only individual workers and their families but entire communities which would otherwise have to absorb overnight the loss of aggregate purchasing power represented by major cutbacks in employment.

INSTITUTE A STATE LEVEL ECONOMIC MONITORING CAPABILITY TO ENABLE POLICYWORKERS TO FOLLOW CHANGING TRENDS IN THE STATE'S ECONOMY

The first step in structuring a long-term economic development strategy is understanding trends and identifying opportunities in the economy. This requires the development of a comprehensive data base on the state's economy, emphasizing trends by industry and by geographic region.

The state has substantial research capabilities within various agencies on which to build. The Division of Employment Security maintains comprehensive data at the firm and industry levels on wages, employment, and occupational structure. Industrial and occupational projections are done annually on a limited scale. Other state agencies including Administration and Finance and the Department of Commerce collect different types of data and perform forecasting of the state's economy. However, these data bases are largely uncoordinated and their value is considerably less than the sum of the parts. Furthermore, federal budget cutbacks have reduced the level of analysis that these agencies are able to undertake.

Beyond the collection of data, there is a need for enriching the statistical base through interviews with corporate officials, industry specialists, and representatives of communities. This "outreach" component will help the state further understand reasons for the decline and expansion of certain industries and regions and what to expect in the future.

The following summarizes the Commission's recommendations to improve present research capabilities in the state:

- Supplement the existing state data base to include more detailed regional employment and industry projections, an expansion of wage data by specific occupations, export data information, information on new technologies as they affect occupational and industry structures and an expansion of the data base on labor supply in the state.

- Increase the number and extent of industry studies to include the analysis of specific industries which are key to the state or specific regions of the state in order to determine their future viability, opportunities and potential problems.

- Increase the scope of regional studies to include the identification of a specific region's economy and resources.

Obviously, the type of work outlined above is of no purpose unless it is used to promote economic development. Such work could be used in several ways:

- Creation of a Data Book: This state unlike many others does not currently have a compilation of basic statistical information on its economy. One should be assembled.

- Development of a More Aggressive Outreach Program to Industry: The information collected under several of the projects described above should enable both state and local officials to provide a more coherent and positive picture of the state and selected regions within it.

- Identification of Special Opportunities, Problems and Needs: The work of the monitoring group should be geared to the identification of ways in which the state can respond to the constantly changing nature of the Commonwealth's economy. This group should have a working relationship with those agencies of state government which can translate those needs and opportunities into effective programs.

A state economic monitoring function would not require a large build-up of staff. What is more important than numbers is the quality of the staff and the interrelationship between this group and existing agencies. Such a group should report directly to the Secretary of Economic Affairs.

The monitoring group must to some extent be flexible and demand-responsive. Its work should complement and coordinate rather than replace work currently being conducted in various agencies. It will thus supplement existing work and provide an important resource for all state agencies, quasi-public institutions and community groups involved in economic development and employment policy.

IMPROVE THE PUBLIC SECTOR EMPLOYMENT AND TRAINING SYSTEM AND TIE IT MORE CLOSELY TO ECONOMIC DEVELOPMENT EFFORTS

In its efforts to understand public sector employment and training programs, the Commission found a large, complex and confusing system. This is in large part due to the lack of a national employment and training strategy and the newness of the effort to create one at the state level. While this Commission was not charged with addressing the overall employment and training system, it did have a concern with the system's ability to serve workers dislocated by the decline of mature industries.

Under the new JTPA mechanism, a state-wide Job Training Coordinating Council and a series of 16 regional Private Industry Councils have been established to plan and coordinate employment and training strategies. The Commission identified a number of issues for these bodies to address as the system takes shape.

The first is to more fully utilize the Private Industry Councils as local service coordinators. The Commonwealth has a number of training programs and resources in place, including community college programs, regional vocational/technical schools, the Bay State Skills Corporation, Department of Public Welfare training programs, and apprenticeship programs. The current system is fragmented and many community-based training resources are underutilized. In addition unnecessary duplication of training services may be occuring. In particular in the community and state college system, certain programs operated by vocational/technical schools and apprenticeship programs could and should be better utilized by local Service Delivery Areas.

The implementation of the JTPA with Private Industry Councils as the coordinative mechanism offers an opportunity to coordinate all employment and training programs and integrate services to disadvantaged and dislocated workers. This would insure that federal and state training dollars are more efficiently utilized. Furthermore the coordination of program development between the JTPA system and educational institutions begun under the JTPA education grant can assist schools in the adoption of training programs to meet the needs of dislocated workers.

In particular the PICs should be required to sign off on all public sector education and training programs in their respective regions. Such a process would in no way affect the funding mechanisms now in place. It would however centralize all information about education and training

programs, eliminate duplication and allow for easier identification of program needs not currently being met.

In addition the PICs should create clearinghouses for information on local labor markets. The purpose of the clearinghouses would be to collect and distribute specific information on locally available employment and training services and funding sources for programs and economic development strategies that may affect labor supply and demand in their areas.

At the state level there should be additional efforts to make labor market information easily accessible and useable. This can be accomplished through many means, including the addition of contact people on all disseminated reports, reformatting existing information, and supplementing it with information which is currently collected but not disseminated. With the growing emphasis on dislocated workers, some attention must be given to more accurately identifying who these people are and what their needs are.

With over 50% business representation, the Private Industry Councils are a valuable resource in understanding the needs and opportunities in their areas. It is the responsibility of public sector organizations to make sure they make it as easy and valuable as possible for businesses to participate at both the program design and implementation phases of these programs. Training programs that have the highest success in adequately preparing and placing participants are those in which employers are directly involved.

Firm-based training is especially important in traditional industries when employee skills are outmoded by the introduction of a new technology. Ideally, firms should make a financial commitment to the training program and participate in program planning and operation. Models include the Bay State Skills Corporation's skills training contracts, the apprenticeships monitored by the Division of Apprentice Training, on-the-job-training projects under JTPA, and cooperative education programs at the state colleges.

Increased public/private efforts in this area require additional outreach by the state to the private sector and a better understanding of their needs. The recently established Partnership Center in the Office of Training and Employment Policy has begun to address some of these issues. It has also begun to broaden the scope of public sector ventures to increase the money available to the employment and training system.

Finally, employment and training efforts should be better linked to economic development efforts. Some of the economic development mechanisms used to assist expanding as

well as faltering firms and industries can be used directly to help dislocated workers. The Commission joins with the Dislocated Worker's Task Force in recommending that formal linkages and referral systems be established between economic development and employment and training agencies. The following are some proposals for developing such linkages:

- Firms that receive assistance from state funding agencies should be approached to make commitments to hiring goals for dislocated workers before publicly advertising job openings.

- State funding agencies and communities receiving economic development funding should target for assistance those firms which would create a net increase in jobs, as well as firms which would create jobs that pay wages well above the minimum and provide full benefits.

- The Commerce Department should tie local employment and training resources to its SITE program, so that companies interested in locating in a Massachusetts community can learn of these resources. Information systems such as the one being implemented by the state of Maine should be considered for their applicability in Massachusetts.

- The state should support the Cooperative Regional Industrial Laboratories. This new experimental program developed by the Department of Labor and the Executive Office of Economic Affairs is aimed at generating new employment opportunities for special groups of displaced workers. The CRIL considers a skilled labor force as a regional asset. The goal of the CRIL project is to establish a regional cooperative effort among managers, workers, government, educational institutions and communities to identify new employment-generating enterprises or opportunities. The first CRIL project has been established with skilled machine tool operators in the Greenfield area. Plans exist to develop CRIL projects with other groups. More flexible resources are needed to provide funds for follow-up and implementation of the opportunities identified in the first stage of the CRIL process.

ESTABLISH AN INDUSTRIAL ADVISORY BOARD

The Commission's formal existence will end with the publication of this report. However the work of implementing its recommendations through both legislative and administrative action will just be beginning. To help state government shape and monitor the implementation of these new measures and to provide a useful sounding board for other ideas which may arise, we close with a recommendation that an Industrial Advisory Board be established.

The Advisory Board should be co-chaired by the Secretaries of Economic Affairs and Labor, and should include representation from the sectors represented on this Commission: business, the Massachusetts A.F.L.-C.I.O., academic economists, and community leadership.

Beyond providing general advice to the Governor and Legislature on job growth and loss issues, the Advisory Board should:

- oversee the development of the Massachusetts Industrial Service as it begins its work and faces difficult resource allocation issues;

- follow the implementation of the Social Compact as it becomes operative in the coming months; and

- review data assembled through the proposed economic monitoring capability and help shape proposed industry-wide assistance initiatives as discussed in earlier recommendations.

THE SOCIAL COMPACT

INTRODUCTION

The Commonwealth of Massachusetts, its businessees, its workers, its labor organizations, and its communities have a common desire to improve the economic lives of our citizens. The cooperative efforts of all parties are essential to meet two fundamental economic goals:

- to create and retain jobs throughout Massachusetts, especially in areas of chronically high unemployment; and

- to cushion the impact on workers, their families, and their communities when major dislocations of employment occur.

Paramount in achieving these goals is the maintenance of a sound economic climate in Massachusetts. Business and government agree to promote such a climate by working together to enhance the fiscal competitiveness of our Commonwealth and by pledging to resolve economic issues in a cooperative, rather than adversarial, manner.

In addition, business and government agree to pursue three specific strategies to create and retain job growth and cushion the effects of job losses:

- government and business will target and combine their resources to help existing firms that are viable and to encourage new start-ups and expansions

- businesses that anticipate or experience a major dislocation of employment agree to abide by the standards of responsible corporate behavior outlined in this compact; and

- the Commonwealth will provide targeted assistance to workers and communities impacted by a major dislocation of employment.

STANDARDS OF CORPORATE BEHAVIOR

The parties to this compact recognize that no matter how effectively we work together to prevent the loss of viable companies, some major dislocations of employment will and must occur. We also recognize that different circumstances call for different responses when a plant closing or major, permanent layoff appears imminent and that most

Massachusetts firms are corporate citizens who will act responsibly when major dislocations are inevitable.

While the standards of appropriate corporate behavior outlined in this section of the compact are understood to be voluntary, they constitute a good-faith pledge of actual behavior by the companies that adopt this compact.

Businesses that recognize a threat to their on-going viability or their ability to provide employment will utilize any form of state assistance they deem practicable and appropriate in exploring alternatives for stabilizing the company and retaining employment.

When a plant closing or partial closing is imminent, businesses recognize that the needs of workers and affected communities must be considered alongside the needs of the affected firm. Advance notice is encouraged because it is generally valuable to workers and communities in preparing to cope with major job losses. However, significant advance notice is not always possible or appropriate and other provisions can often provide an equivalent benefit to dislocated workers and impacted communities.

Therefore, Massachusetts businesses agree to provide every employee affected by a major plant closing or a major, permanent layoff with the maximum practicable combination of the following:

- the longest practicable advance notice in cases where notice is possible and appropriate; and/or

- maintenance of income and health insurance benefits.

Firms are also encouraged to assist workers in other ways, such as a corporate commitment to help re-employ or out-place affected workers.

While no minimum standard of notice is prescribed for these corporate responses, the Commonwealth, in designing the public responses outlined below, has been guided by the approximate time workers need to adjust to termination and find new employment - 90 days. The Commonwealth similarly expects firms to provide at least 90 days' notice and/or equivalent benefits whenever possible.

In those situations where firms choose to provide income maintenance, it is suggested that employees be provided with one week's pay for each year of service up to a maximum of 12 weeks, with a minimum of two weeks pay for employees who have worked for the company for at least one year.

MAINTENANCE OF HEALTH INSURANCE

Subject to pending legislation, employer group health insurance policies will provide 90 days' extended coverage to employees who lose their jobs in plant closings and certain partial closings.

REEMPLOYMENT ASSISTANCE

The Commonwealth will establish a "Reemployment Assistance Program" to respond to major plant closings and some partial closings, subject to later definition. (In 1985, the program will cover permanent cessations of business activity affecting at least 90% of the workforce at facilities employing 50 persons or more.)

Appropriate funding sources for this program may include general revenues and employer contributions to the unemployment insurance system.

The program will provide the follwoing benefits for eligible workers:

- assistance in maintaining existing health insurance coverage until reemployment to a limit of 90 days after termination, for workers not covered by their employer, union, or family.

- significant expansion of dislocated worker counseling and reemployment programs

- for participants in dislocated worker programs, a supplemental unemployment insurance benefit available until re-employment to a limit of 90 days; this income adjustment shall be reduced proportionally by any combination of advance notification and/or income maintenance provided an employee by his employer.

To the degree that the fund is supported by employer unemployment insurance contributions the fund may offer a rebate or credit to employers who in response to an actual closing or major, permanent layoff, provide significant advance notification and/or income maintenance.

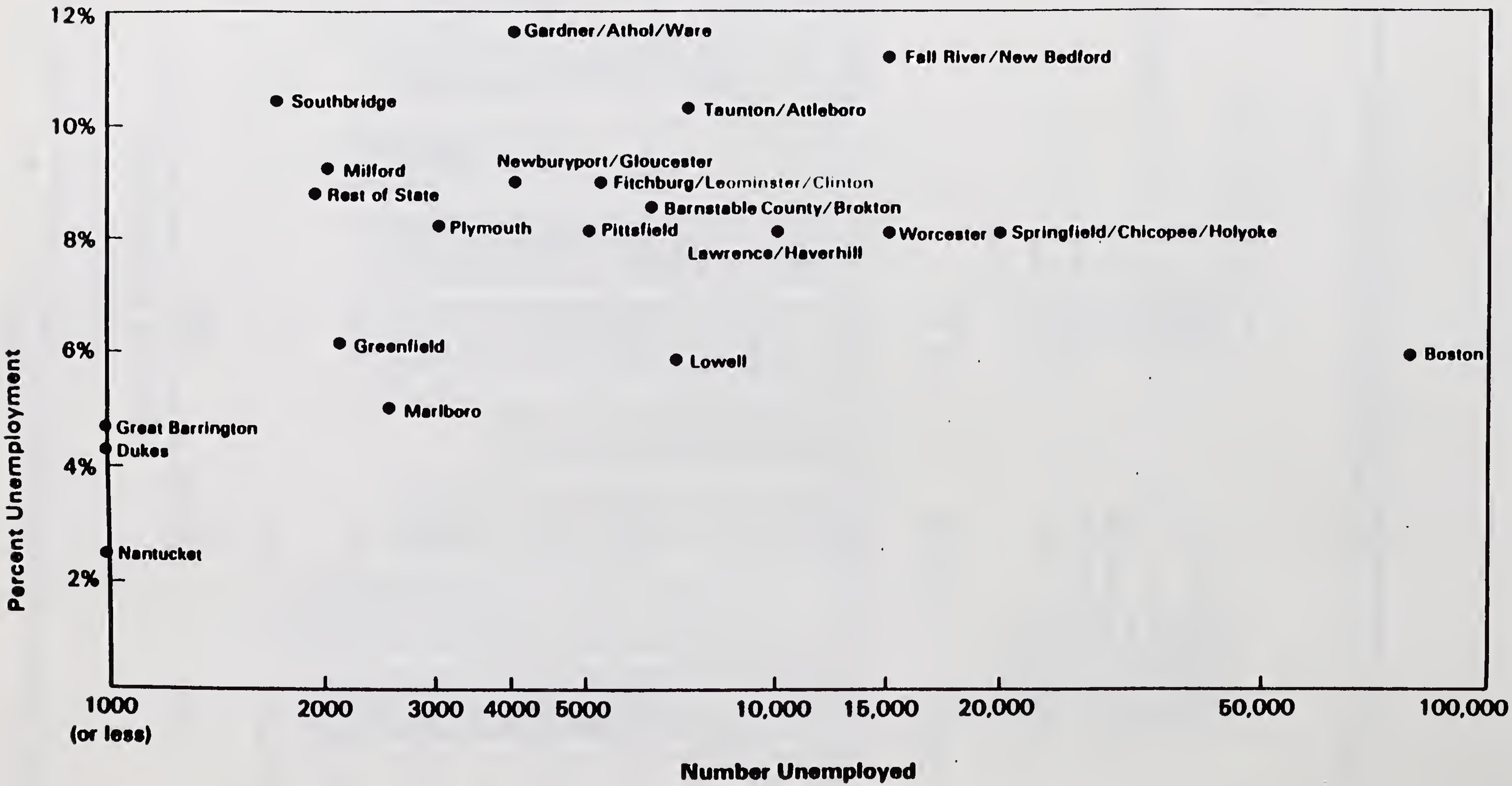
ACCEPTANCE OF THIS COMPACT

The Commonwealth and the business community will work together to encourage firms throughout Massachusetts to adopt this compact and embrace its standards of corporate behavior.

The Commonwealth will make the standards of corporate behavior outlined in this compact an essential element of all

financing agreements between user companies with 50 or more employees and the Massachusetts Industrial Finance Agency, the Massachusetts Technology Development Corporation, and the Massachusetts Community Development Finance Corporation, and the Massachusetts Government Land Bank. The funding resources of these agencies shall be available for use by companies participating in this compact.

EXHIBIT 2
Unemployment by Labor Market Area



Source: Massachusetts Division of Employment Security:
January - September 1983 Average Unemployment Rates

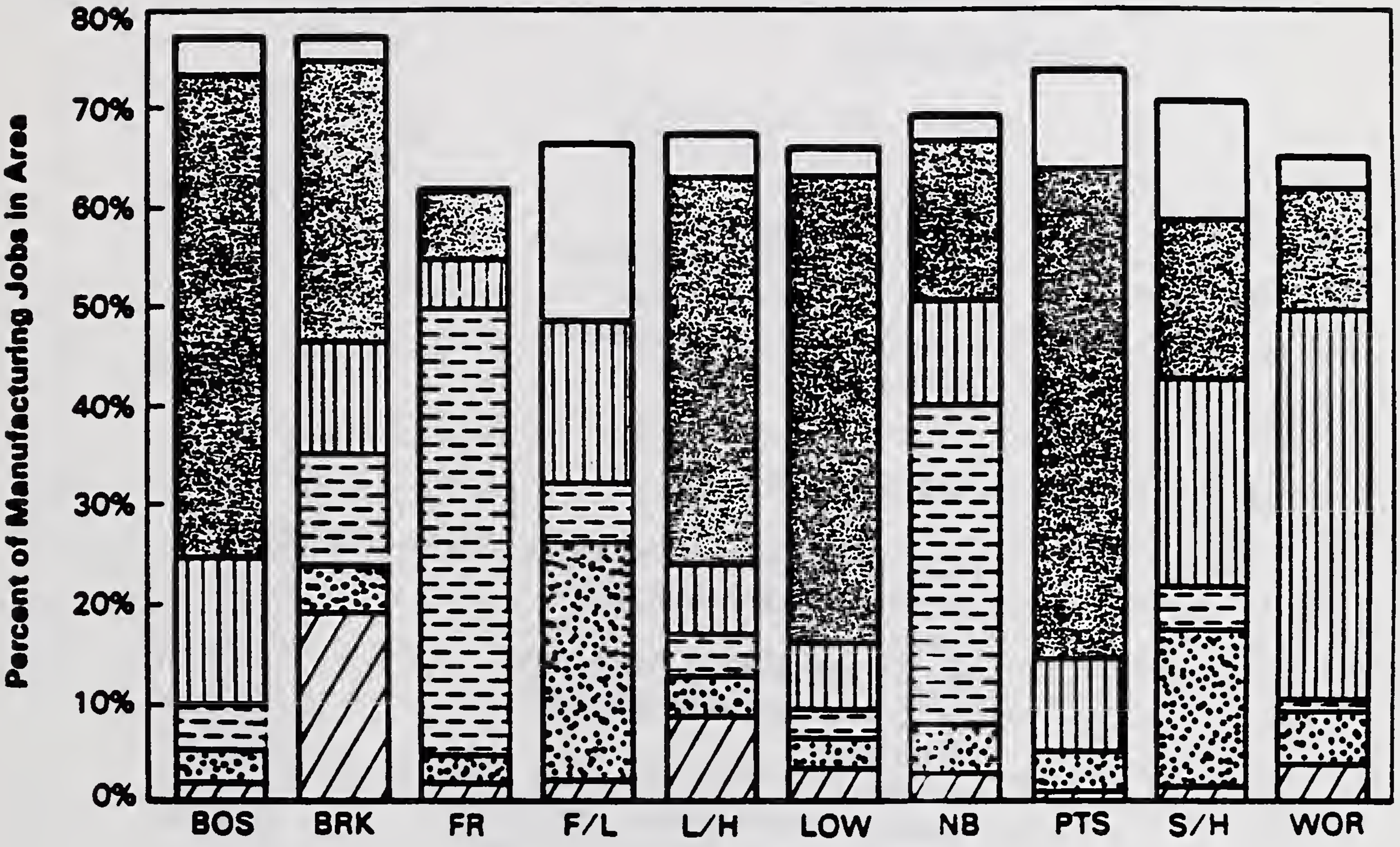
EXHIBIT 1
Structure of the Commonwealth's Economy: Distribution of Jobs by Major Sector

	1950	1965	1974	1982
Construction	4.2%	4.3%	3.8%	3.0%
Manufacturing	40.7%	33.1%	27.2%	24.3%
(Mature Industries)	(34.8%)*	(25.5%)	(19.3%)	(15.1%)
Transportation & Public Utilities	6.7%	5.2%	5.3%	4.6%
Wholesale & Retail Trade	20.1%	20.7%	22.1%	21.9%
Finance, Insurance & Real Estate	4.4%	5.4%	5.8%	6.4%
Services including Mining	12.1%	17.3%	20.8%	25.9%
Government	11.8%	13.8%	15.1%	14.1%
TOTAL	100.0%	100.0%	100.0%	100.0%
Total in Thousands	1,757.1	2,015.8	2,353.7	2,638.0

* Estimated.

Source: Massachusetts Division of Employment Security: 790 Series

EXHIBIT 3
Regional Employment
Manufacturing Jobs in Selected Industries



REGIONS
BOS = Boston
BRK = Brockton
FR = Fall River
F/L = Fitchburg/Leominster
L/H = Lawrence/Haverhill
LOW = Lowell
NB = New Bedford
PTS = Pittsfield
S/H = Springfield/Holyoke
WOR = Worcester

LEGEND


Source: Massachusetts Division of Employment Security, 1981 Figures

EXHIBIT 4
Manufacturing Employment in Massachusetts

	1982
DURABLE GOODS	61.8%
Lumber and Furniture	1.8%
Stone, Clay and Glass	1.8%
Primary Metals	2.4%
Fabricated Metals	7.5%
Non-Electrical Machinery	16.4%
Electrical Machinery	17.4%
Transportation Equipment	5.2%
Instruments	9.3%
NON-DURABLE GOODS	38.2%
Food and Kindred Products	3.8%
Textile Mill Products	3.2%
Apparel	5.9%
Paper and Allied Products	4.1%
Printing and Publishing	7.2%
Chemicals	2.7%
Rubber and Miscellaneous Plastics	4.7%
Leather and Leather Products	2.9%
Miscellaneous Manufacturing*	3.7%
	100.0%
TOTAL MANUFACTURING EMPLOYMENT (000s)	640.1

* As of 1984, miscellaneous manufacturing will be moved to the durable goods category.

Totals do not sum due to rounding.

Source: Massachusetts Division of Employment Security: <u>790 Series</u>

EXHIBIT 5
Massachusetts Employment Trends by Manufacturing Industries

SIC	INDUSTRY	1950	1965	1970*	1975*	1980	1983*
				INDEX: 1950 = 100			
32	Stone, Clay & Glass	100	107	124	107	128	112
33	Primary Metals	100	91	74	69	77	65
34	Fabricated Metals	100	113	139	127	138	118
35	Machinery except Electrical	100	113	104	111	165	151
36	Electric and Electronic Equipment	100	134	141	125	167	168
37	Transportation Equipment	100	135	146	118	139	138
38	Instruments	100	159	219	244	327	317
20	Food & Kindred Products	100	84	70	58	55	48
22	Textiles	100	33	28	21	22	17
23	Apparel	100	99	84	72	69	62
26	Paper Products	100	111	106	85	86	79
27	Printing & Publishing	100	114	125	110	120	128
28	Chemicals	100	109	127	119	111	99
30	Rubber & Plastics	100	123	109	91	100	98
31	Leather Products	100	67	48	32	30	22
39	Miscellaneous	100	83	81	74	82	64
	TOTAL MANUFACTURING EMPLOYMENT (thousands)	715.7	668.2	648.[illegible]	577.8	674.9	624.3

* Recession Years

Source: Massachusetts Division of Employment Security: 790 Series

EXHIBIT 6

Plant Closings in Massachusetts by Industry
January 1, 1982 - December, 1983*

SIC	INDUSTRY NAME	NUMBER OF CLOSED FACILITIES	% OF CLOSED FACILITIES	PEAK # OF EMPLOYEES LOSING JOBS	% OF TOTAL JOB LOSS	TOTAL 1982 INDUSTRY EMPLOYMENT IN MASSACHUSETTS	JOB LOSS AS % OF TOTAL EMPLOYMENT IN SIC	INDUSTRY EMPLOYMENT AS % OF TOTAL STATE EMPLOYMENT
20	Food & Kindred Products	5	7.5%	742	6.0%	25,550	2.9%	1.1%
22	Textile Mill Products	2	3.0%	680	5.5%	23,582	2.9%	1.1%
23	Apparel	15	22.4%	1,941	15.7%	39,635	4.9%	1.8%
25	Furniture & Fixtures	2	3.0%	489	4.0%	7,731	6.3%	.4%
26	Paper & Allied Products	1	1.5%	130	1.5%	27,206	.5%	1.2%
27	Printing & Publishing	2	3.0%	260	2.5%	44,483	.6%	2.0%
28	Chemicals & Allied Products	1	1.5%	133	1.1%	18,341	.7%	.8%
30	Rubber & Miscellaneous Plastic Products	3	4.5%	430	3.5%	29,739	1.4%	1.3%
31	Leather & Leather Products	7	10.4%	1,215	9.8%	20,907	5.8%	.9%
32	Stone, Clay, Glass & Concrete Products	1	1.5%	65	.5%	12,854	.5%	.6%
33	Primary Metal Industries	3	4.5%	412	3.3%	17,262	2.4%	.8%
34	Fabricated Metal	3	4.5%	454	3.7%	51,494	.9%	2.3%
35	Machinery except Electric	4	6.0%	612	4.9%	111,460	.5%	5.0%
36	Electrical & Electronic	4	6.0%	980	7.9%	111,407	.9%	5.0%
37	Transportation Equipment	1	1.5%	120	.9%	33,257	.4%	1.5%
38	Measuring, Analyzing & Controlling	5	2.5%	885	7.2%	61,313	1.4%	2.7%
39	Miscellaneous Manufacturing	2	3.0%	350	2.8%	25,663	1.4%	1.1%
42	Motor Freight Transport	1	1.5%	400	3.2%	59,816**	.7%	2.7%
51	Wholesale Trade - Nondurable	1	1.5%	100	.8%	132,428***	.1%	5.9%
53	General Merchandise Stores	1	1.5%	1,350	10.9%			
54	Food Stores	1	1.5%	450	3.6%	450,023****	.4%	20.1%
56	Apparel & Accessories Stores	2	3.0%	170	1.4%			
	TOTAL	67	100.0%	12,369	100.00%			

* Includes closings effecting over 50 full-time employees.
** Includes SICs 40 - 47.
*** Includes SICs 50 & 51.
**** Includes SICs 52 - 59.

Totals may not sum due to rounding.

Source: Governor's Commission on the Future of Mature Industries

EXHIBIT 7

Summary of Financing Programs: Financing Characteristics

PROGRAM	PURPOSE	TOTAL RESOURCES	ACTIVITY TO DATE	TYPE OF FINANCING	USE OF FINANCING
CDFC	To aid in revitalizing depressed communities.	$10 million	$9.9 million	senior debt equity subordinated debt combinations	32% expansion 6% stabilization/ merger 19% start-up 43% real estate
MIFA	To make long-term, tax-exempt financing available on a state-wide basis.	not limited	$2.5 billion	senior debt & subordinated debt through tax-exempt IRBs loan guarantees	fixed assets
MCRC	To provide intermediate and long-term, subordinated debt and equity to smaller firms.	$100 million	$89 million	30% senior debt 25% subordinated debt 36% subordinated debt with equity 9% equity	65% expansion 10% buyout 15% stabilization 10% start-up
MBDC	To provide intermediate and long-term debt to smaller companies when conventional loans are not available.	not limited	$104 million	intermediate secured debt long-term secured debt subordinated debt	87% expansion 13% buyout
SBA 503	To provide long-term financing of fixed assets for small businesses.	not limited	$19.4 million in Massachusetts	SBA guaranteed subordinated debt (40% of total loan package)	fixed assets only
MTDC	To increase supply of venture capital to technology-based enterprises.	$6.0 million	$5.9 million	equity and debt together	start-up, and expansion
LAND BANK	To help redevelop surplus state and federal government property and blighted property.	$40 million	>$20 million	real estate mortgages	real estate development site preparation acquisition
SMALL CITY SET ASIDE	To assist economic development in smaller cities.	$2.3 million	$1.1 million	loans from municipalities which receive grants from the state	expansion plant & equipment job training
UDAG	To stimulate economic development in deteriorating communities.	$400 million per year nationwide	$185.3 million in Massachusetts since 1978	loans from municipalities which receive grants from HUD	broad range of activities
TAA	To help companies respond to foreign competition.	fiscal year 1983 nationwide $5 million direct loans & $12 million guaranteed loans	$15.8 million in Massachusetts since 1978 in direct & guaranteed loans	direct loans guarantees	expansion working capital machinery & equipment

EXHIBIT 7
(continued)

PROGRAM	SIZE OF LOAN	TERM OF LOAN	INTEREST RATE
CDFC	73% - <$250,000 18% - $250,000 - $500,000	one loan <3 years 64% 3 - 7 years 27% >7 years	12% - 15% for manufacturing loans
MIFA	median: around $1 million range: $200,000 - $10 million	>7 years 10 years for equipment 15 years for real estate	65% - 90% of prime
MCRC	Average: $900,000 Range: $125,000 - $5 million 51% under $500,000	78% >7 years 22% 3 - 7 years	market rate
MBDC	Average: $300,000 Range: $100,000 - $600,000	5 - 25 years	generally 3 points above prime
SBA 503	Average: $202,000 Range: $88,000 - $500,000	15 - 25 years	debenture at 2 - 3 points below prime
MTDC	Range: $100,000 - $500,000	Average: 4 - 5 years	prime plus 1 - 3 points
LAND BANK	Range: $76,000 - $5.3 million	long-term	below market rate
SMALL CITY SET ASIDE	maximum $300,000 funding	long-term	below market rate often 5% - 7%
UDAG	Small Cities: $56,000 - $6.7 million Large Cities: $75,000 - $14.2 million	long-term: 10 - 20 years typical	3% - 7%; negotiated with HUD
TAA	Loans: maximum $1 million Guarantees: maximum $3 million	generally 7 years or less	treasury bill rate plus 1.75%

EXHIBIT 8
Public Funding for Employment and Training Programs in Massachusetts
Fiscal Year 1984

ADMINISTRATIVE AGENCY/PROGRAMS	TOTAL FUNDS ALLOCATED	POTENTIAL FUNDS FOR DISLOCATED WORKERS
DIVISION OF EMPLOYMENT SECURITY		
Unemployment Insurance Program (Administration only, does not include benefits paid to claimants)	$31.6 million	Amount unknown, dependent on proportion of program recipients who are dislocated workers.
Employment Service (administration)	$24.4 million	Same as above.
	$390,000 (JTPA-Title III funds for sixteen Employment Service workers to help only dislocated workers).	$390,000 (already accounted for under JTPA-Title III funds).
Trade Adjustment Assistance Program	$670,000 (fiscal year 1983)	$670,000 (fiscal year 1983)
Emergency Veterans Employment Jobs Act	Unspecified amount available to states on first come, first served basis	Amount unknown, dependent on the number of program eligible people who are also dislocated workers.
DEPARTMENT OF MANPOWER DEVELOPMENT		
JTPA-Title IIa (disadvantaged workers) of which:	$29.3 million of which:	
Distributed Directly to SDAs/PICs	$22.8 million	
Governor's Discretionary Funds	$6.5 million	
Title III (dislocated workers)	$2.5 million	$1.5 million with some local matching in the form of in-kind services.
DIVISION OF OCCUPATIONAL EDUCATION		
Allocation for Adult Training Programs of which:	$4.78 million of which:	
Adult Short-Term Training Grants	$975,640	Amount unknown, dependent on proportion of clients who are dislocated workers
Allocations to communities for vocational training (secondary schools including regional vocational schools).	$1.7 million	
Allocations to public community colleges	$1.25 million	Amount unknown, dependent on proportion of clients who are dislocated workers.
Apprentice training	$400,000	
Displaced Homemakers Program	$200,000	
Programs for incarcerated adults	$250,000	

EXHIBIT 8
(continued)

ADMINISTRATIVE AGENCY/PROGRAMS	TOTAL FUNDS ALLOCATED	POTENTIAL FUNDS FOR DISLOCATED WORKERS
BAY STATE SKILLS CORPORATION		
Grants allocated to providers of which:	$3.95 million of which:	
Skills training contracts	$1.5 million (requires equal match from firms)	Amount unknown, dependent on proportion of clients who are dislocated workers.
Supported Work Program for the mentally retarded	$1.1 million	
Displaced Homemakers	$550,000	
Programs for welfare recipients.	$800,000 (allocated by the Department of Public Welfare)	
Unallocated Funds fiscal year 1983	$600,000	$600,000 may be targeted to dislocated workers
BOARD OF REGENTS		
Vocation-related training programs, run by fifteen community colleges	$54 million (represents 64% of the total allocation to community colleges, which is an estimated amount used for vocation-related degree programs).	Amount unknown, dependent on proportion of students who are dislocated workers.
Tuition Waiver Program for unemployed workers	$1.0 million	Amount unknown, dependent on proportion of program participants who are dislocated workers.
DIVISION OF APPRENTICE TRAINING		
6200-6300 individual apprenticeships in firms throughout Massachusetts.	$400,000 (through Division of Occupational Education)	Amount unknown, dependent on proportion of apprentices who are dislocated workers.
DEPARTMENT OF PUBLIC WELFARE		
Federal Work Incentive (WIN) Demonstration Program.	$19.25 million	Amount unknown, dependent on proportion of program participants.
DEPARTMENT OF ELDER AFFAIRS		
Senior Aids Program.	$1.8 million	Amount unknown, dependent on proportion of program participants who are dislocated workers.
Elder Service Corps.	$792,000	
DEPARTMENT OF COMMUNITY DEVELOPMENT		
Employment and Training Services for public housing residents.	$2.325 million (allocated to eleven municipal housing authorities to contract for services.	Amount unknown, dependent on proportion of program participants who are dislocated workers.

INDIVIDUAL POINTS OF CONCERN

The Commission's recommendations reflect the consensus reached after months of discussion on the wide range of issues affecting mature industries. On certain recommendations, however, individual Commission members still have points of concern. These are raised in the attached letters they submitted for inclusion in the report.

FEDERAL RESERVE BANK
OF BOSTON

JUN 4 1984

LYNN E. BROWNE
VICE PRESIDENT AND ECONOMIST
617-973-3091

BOSTON, MASSACHUSETTS 02106

June 1, 1984

Mr. Ben Kincannon
Governor's Commission on the
Future of Mature Industries
The Commonwealth of Massachusetts
Executive Office of Economic Affairs
One Ashburton Place - Room 2101
Boston, MA 02108

Dear Ben:

While I am in agreement with the general thrust of the recommendations of the Governor's Commission on the Future of Mature Industries, I am concerned with the reemployment assistance portion of the Compact. In particular, I fear that providing workers who have lost their jobs through a plant closing with a supplemental unemployment insurance benefit discriminates among individuals in essentially similar circumstances and creates perverse incentives.

The availability of the supplemental benefit depends upon the individual being a victim of a plant closing and not his personal circumstances. In particular, it is not related to the difficulty the individual will encounter in finding re-employment. There is an implicit assumption that a victim of a plant closing will have greater difficulty than someone who loses his job for other reasons. This assumption seems to be based on the perception that closings tend to be large relative to the size of the local labor market. However, this is not necessarily the case. I find it inequitable that someone who loses his job in a 50-person plant closing in the Boston area is eligible for benefits, while 200 people permanently laid off in an Athol or North Adams would not receive benefits. Rather than tying supplemental benefits to plant closings, I would prefer to see them related to the unemployment rate in the local community or characteristics of the unemployed, such as tenure with employer.

I am also afraid that the provision of supplemental benefits to those who have not received notice of a plant closing will encourage firms to withold formal notice so as to enable their workers to collect these benefits. Furthermore, unless accompanied by dislocated worker employment and training programs that have real substance and that require vigorous job search, the

provision of a supplemental benefit may encourage workers to delay seeking re-employment. It is important to recognize that the bulk of unemployment benefits are not subject to tax, so that the reduction in after tax income in the first months of unemployment may be quite small . Coupled with the workers' natural reluctance to change industries or locations, this may discourage job search.

These are, of course, my personal views and should not be taken to represent those of the Federal Reserve Bank of Boston or the Federal Reserve System.

Sincerely,

Lynn E. Browne

Lynn E. Browne

FILENE'S

Executive offices Boston, Massachusetts 02101

June 11, 1984

Commissioner Ronald Ansin
Mr. George Carpenter
Chancellor Joseph Duffey
Governor's Commission on the
Future of Mature Industries
Office of Economic Affairs
Suite 602
The Saltonstall Building
100 Cambridge Street
Boston, MA 02202

Dear Co-Chairmen:

I have asked that this letter be attached to the report of the Commission. Although I am pleased with the general work of the Commission, and the unanimous concern for the displaced worker that resulted in the Social Compact, I do have several concerns about the report.

I am troubled by the underlying notion which runs through most of the report that mature industry jobs can be saved, with the proper infusion of government assistance. I would prefer that the emphasis instead be placed on the social needs required to ease workers through the transition which inevitably will take place as many mature employment opportunities change to as yet unimagined ones.

Although the report talks in terms of mature manufacturing industries, its recommendations and compact presumably apply to all employers - service industries, educational institutions, hospitals and retailers. While its content is right and just, its lack of clarity becomes important when denying access for certain financing to nonsignatory firms. For example, I assume "50 persons" means fifty full-time equivalents, but that is not made clear.

I am also uneasy that we may be "cutting off our noses." If an employer chooses not to sign the compact, but by personnel policy, assurances from the Chairman or some other statement, indicates it intends to follow appropriate standards of corporate behavior, I would argue that is sufficient. We may be denying financing to the very employer who could generate jobs in a key area or project.

As expressed at many Commission meetings, a plant closing in Boston is less devastating to the community and the worker than one in high unemployment area. I would have preferred that the state have the flexibility to give extra assistance to those latter workers only.

The procedural delays and resulting high costs of workers compensation payments have been listed in the Massachusetts Business Roundtable's Agenda as a major reason why our industries are disadvantaged in competition with those in other states. Our worker's compensation problems are well documented and affect our workers as negatively as our mature industries. The solution to this problem lies squarely in the hands of our elected officials. In my view, the Commission's report missed an opportunity by not urging the prompt resolution of the workers compensation dilemna. Until this is done, manufacturing and other labor intensive businesses will have high expenses, reducing capital and profits available for further investment, and Massachusetts employers will be reluctant to hire the very worker population most affected by a plant closing.

Finally, the AFL-CIO does not represent all Massachusetts organized workers, and represents only a small percentage of the total Massachusetts workforce. It should therefore not be automatically designated to represent Massachusetts employees on newly created boards.

The Commission did not have the time to establish cost estimates for the recommendations, or a cost-benefit analysis of each. I trust the Legislature and Executive branches will perform these functions, as for any other legislative and regulatory proposals.

Sincerely yours,

Dawn-Marie Driscoll

Dawn-Marie Driscoll
Vice President and Counsel

The Commonwealth of Massachusetts

HOUSE OF REPRESENTATIVES
STATE HOUSE. BOSTON 02133

TOM GALLAGHER
REPRESENTATIVE
18TH SUFFOLK DISTRICT
59 ALDIE STREET
ALLSTON, MA 02134
TEL. 254-6798

Committees on
Education
Housing and Urban Development
Taxation

ROOM 473G, STATE HOUSE
TEL. 722-2070

RAYMOND DOOLEY
ADMINISTRATIVE ASSISTANT

Ronald Ansin, Co-Chairman
George Carpenter, Co-Chairman
Joseph Duffey, Co-Chairman
The Governor's Commission on the Future of
Mature Industries
100 Cambridge Street-Room 602
Boston, MA

Gentlemen:

> "A small problem in search of a small solution"
> P.3 Draft Report of the Governor's Commission on the Future of Mature Industries.

> "The Commonwealth recognizes that the best remedy for a plant closing is a plant opening."
> P.2 Compact, ibid.

If I could choose two quotes from the Commission's Draft Report which characterize the Commission's approach to the issues surrounding "plant closings" it would be those cited above.

The "small problem" mentality has led us to a severely circumscribed set of recommendations. The "best remedy" statement is a verbatim repetition of a slogan used by one of the state's most prominent business associations in its arguments against mandatory notification of layoffs. Its inclusion is indicative of the Commission's willingness to embrace such arguments without examining their merits.

But before going any further allow me to state that my my purpose is not to oppose the thrust of the Draft Report, but merely to indicate my disappointment with the extent to which the Commission has chosen to limit itself.

Specifically, I think that the extension of hospitalization benefits for the unemployed is an excellent proposal. The proposed Industrial Service represents a promising new direction for state activity. The financing programs appear to be worthwhile experiments. And even the limited Reemployment Assistance Program has the merit of guaranteeing benefits to some employees who would not be guaranteed them under the bill which I have sponsored requiring notice of layoffs as a matter of law.

This last point bears closer scrutiny. The Commission's proposal calls for a fund to provide these benefits which would be paid for either by the general public or by the business community as a whole.

The bill which I have sponsored for the past three years involves no cost whatsoever, except to specific companies whih fail to give the specified notice of layoffs.

I introduced that bill as a redraft of an earlier bill which included severance benefits to all employees subject to large layoffs paid by the company.

I introduced the redraft not because I did not believe in such benefits, but in response to the "business community's" primary objection to the bill at that time that it would increase the cost of doing business in Massachusetts.

When that objection was removed the opponents fell back upon the intangible argument that the new bill would still somehow hurt the states "business climate", as alluded to in the Draft Report.

It is ironic that the bill's opponents would now prefer an approach which does involve costs to one which doesn't--as long as those costs are socialized over the general population rather than charged to the offending party.

From a public policy standpoint it is difficult to justify not at least attempting to collect costs associated with an abrupt layoff from the responsible company.

But that would, of course imply that said company be required to give advance notice of its layoff intentions. But since the day of the announcement of the Commission's formation at the same hearing of the legislative Commerce and Labor Committee at which Secretary Evelyn Murphy pronounced that,"There is no doubt a competitive disadvantage would occur...The state's competitive edge would be quite damaged by this bill", the administration's representatives on the Commission looked for a way to avoid the alleged "business climate" problems.

They were undaunted in their search despite the occurence of a rather remarkable event in late February.

At that time the Chairman of the above-mentioned business association announced very publicly that because of displeasure with our state's taxation policies his company had cancelled a planned in-state expansion, substituting for it a move to Maine--the only state in the union with a substantial "advance notice" requirement.

This would have seemed an event destined to provoke a serious inquiry into the objective economic basis of the "negative business climate" argument. No such inquiry was undertaken because the argument was treated not as a economic one, but as a political one-in other words-a threat to make life difficult for the administration.

The response instead has been a "Voluntary Social Compact" with an incentive system designed to induce compliance. To the extent that the compact is voluntary, I believe that it is essentially meaningless. Some companies will give notice if they find it convenient or just-but then they can do that right now.

Insofar as the compact is an incentive system, we must consider whether the incentives of access to quasi-public agency funding are adequate to the task. The Commission's deliberations were conducted, to the best of my knowledge, in a total vacuum of information as to how many firms or employees fell into the pool served by the state's quasi-public agencies.

But even if we knew how many companies this incentive might induce to sign the "social compact", the question becomes one of compliance. The only disincentive to non-compliance is the Commonwealth's refusal to grant future funds from the quasi-public agencies to such companies in the future until such time as any costs incurred by the state are repaid.

But we must ask-are such companies very likely to again apply for such funds? To cite just two of the more publicized closings to occur during the Commission's existence, would denial of future quasi-public funds have changed the behavior of Revere Sugar or Schraffts in Charlestown?

In my opinion the "Social Compact" does not represent a serious contribution to the solution of the sudden layoff problem. It may be argued that it need not do so since the Reemployment Assistance Program will take care of at least the bulk of the most severely affected employees.

But this ignores half of the problem entirely. To quote the Draft Report on pages 17-18-

"Concern over the provision of notice of closings grows out of two points. The first is that with time, it is sometimes possible to find ways to turn the company around and maintain the business or find a new company to take its place. The second point is that workers need time to adjust to unemployment both psychologically and financially."

If, in fact, the "Social Compact" is as meaningless as I have claimed, then the first point will not have been dealt with at all and an opportunity to make truly effective the newly proposed Industrial Service will be passed up.

Two last points. In a paper which Senator D'Amico and I submitted to the Commission we suggested that the Commonwealth seek to enter into "no raiding compacts" with other states.

Under this proposal two or more states would mutually forego the use of their quasi-public agencies or other forms of public assistance for the purpose of luring industries from other states which were signatories to such a compact.

This would offer a mechanism by which the Commonwealth might seek to extricate itself from what has been termed a "second war between the states" which results in a downward spiral of state revenue sources. The Draft Report makes no mention of this approach.

And finally, the recent flap over the large remuneration given to certain executives of the Ford Motor Company has focussed public attention upon the inequities of corporate salaries. The Reagan Administration itself has acknowledged the destabilizing effects of such inequities upon the workforce and public confidence.

As the Commonwealth proposes to establish new sources of public funding for private corporations, it ought to include stipulations regarding maximum salary levels for state assisted ventures.

I would appreciate your including this letter in the Commission's report.

Sincerely,

Tom Gallagher

TOM GALLAGHER
State Representative

CC: Ben Kincannon

Josh Posner
34 Lancaster Street
Cambridge, Massachusetts 02140

June 11, 1984

Ronald Ansin
George Carpenter
Joseph Duffey
Co-Chairmen
Governor's Commission on the Future of Mature Industries
100 Cambridge Street
Boston, MA

Dear Co-Chairmen:

I believe that the recommendations of the Commission are useful and important steps toward improving the prospects for economic growth with fairness in Massachusetts. I write, however, to express a serious concern that these steps not be misunderstood to be a full solution the problems our Commission was asked to address. We have done some good work, but the public's expectations should not be raised too much. Certainly there are limits to what a state can accomplish in this area. But there is more to do before we can reasonably say that we have fully dealt with the future of mature industries in the Commonwealth.

The Compact

The primary accomplishment of the Commission is the recommendation of a voluntary compact between business and government on a new standard of corporate behavior towards workers and communities in the event of a plant closing or a major layoff. This issue had reached a political boiling point in the Spring of 1983 and was the primary reason why the Commission was created to begin with. Not surprisingly, this issue dominated the Commission's proceedings throughout the Commissions existence. We sincerely hope that the settlement of the plant closing notification issue, one of the thorniest and longest standing issues dividing business and labor in recent memory, clears the way for a new period of business/labor/community/government cooperation in the development of a better economic climate and improved living standards for the citizens of the Commonwealth.

Hopefully, the compact will result in businesses voluntarily providing adequate notice or severence pay to their workers. The main impetus to comply with the compact's behavior standard seems to be moral pressure. Financial pressures will work against a company complying. We will

know more after some time in operation, but if the Suplemental Unemployment Benefits fund gets large, it will be because many companies are not cooperating with the compact. It is extremely important, therefore, that the costs of this fund be borne by the business community so that there is a financial incentive as well as peer pressure to comply with the compact. The use of beyond a short start-up period is not appropriate.

The Need For An Economic Strategy

Beyond the plant closing issue, the Commission report makes a number of recommendations that make it possible for the state to address some basic problems before they get to the crisis point. While these are good ideas, and their implementation should not be delayed, they are not the comprehensive approach that the Commonwealth needs. Hopefully, with the plant closing issue politically resolved, at least for now, the creation of a more comprehensive economic strategy for the Commonwealth can now move to the top of the political agenda.

I believe that a coherent economic strategy is a needed element for Massachusetts's approach to economic development in this increasingly competitive world economy. Our state has led the way over the past 8 years in the development of a long list of innovative government programs to promote economic growth. In the first Dukakis administration, Massachusetts developed a model of broad-based economic planning with a growth policy oriented to the revitilization of urban centers. We need something similar in the industrial sphere so that our array of business incentive programs can become more effective in creating good jobs and actually improving the lives of people and their communities.

We need to adopt a clearly-stated set of goals for an economic strategy that allows the Commonwealth to move beyond ad hoc activity and case-by-case decision-making. Our programs need more focus. We need to set priorities and measure our progress toward achieving them. We need to synthesize our many programs, agencies and tax incentives and aim them at commonly-agreed upon economic goals. Arriving at agreement on thesegoals will take another major investment in consensus building among business, labor, communities and government. And the development of this consensus will demand leadership that looks beyond the special concerns of the moment, and puts forth a vision of future progress for the citizens of the Commonwealth.

What kind of goals could inform a state economic strategy ? Some examples might include:

1. Increasing the average wage.-- One of the findings of the Commission's work was that average wages in Massachusetts are 3% below the national average, this while the cost of living is way above average for much of the state. A goal could be set to raise the average wage to, say, 5% above the national average. This would mean an increase of $1300 per year in average wages. We might strive for this goal by targeting assistance not simply to businesses which create jobs, but to those that can pay above average wages. In Rhode Island, for example, where a specific target for increasing wages has been adopted, a new government loan/grant program has been created to encourage jobs that can pay $9 per hour or more.

2. Reducing unemployment in certain targeted regions.-- Eight of the Commonwealth's statistical Labor Market Areas (LMAs) have unemployment rates from 9% to 14%. The many job creation programs for the state could be prioritized so that unemployment in these areas is reduced to some targeted level.

3. Developing targeted strategies for key industries.-- The work that has been begun by the Commission shows some of the basics on the competitive prospects for specific industries. Different strategies lend themselves in different situations. And different industries play different roles in the state's economy. Some may be a source of future strength; some we should expect to decline in coming years. Because of the impact on its workforce and communities, however, the Commowealth has an interest in playing some role in seeing to it that its portfolio of businesses is managed so that the common good is enhanced. Specific targets might be set in terms of maintaining or increasing market share in particular business segments.

Certainly other goals might be established as the result of a consensus process. These are offered only as an example of the kind of goals that might motivate an economic strategy. The point is that goals such as these are necessary to get maximum effectiveness out of government programs, to measure progress and performance, and to enable seperate interest groups to transcend their isolated concerns.

Once goals are agreed to, policies and programs aimed at achieving them would need to utilize all sectors of the economy, not just traditional manufacturing industries. Focus on achieving these goals would make possible a more rational and fundamental reevaluation of tax policies. Massachusetts has a Tax Expenditure Budget for the first time. An economic strategy is the way to help decide where we can get the most return for our tax expenditures. The same

is true for a needed review of our quasi-public financing programs and job training efforts. An economic strategy should include as a central feature the development of coherent business strategies for geographic regions and specific industries. A clearer game plan would enable the state to establish them at the proper scale and make them more effective. The lack of a strategy has meant that the intial sizes for the programs our Commission has recommended do not correspond to the scale of the problem they are created to solve. The scale of the Economic Stabilization Fund, the Product Development Fund, and initial staffing levels for new state activities seem to have been set, instead by political considerations--a sort of "foot-in-the-door" approach.

Without a coherent economic strategy, government efforts become duplicative and burdened by unfocused incremental changes. They begin to lack direction, have no clear performance criteria, and lack accountability. With a strategy-- one that relies primarily on private businesses and market forces-- the role of government can be limited to those activities where it is required.

An Example in Rhode Island

Perhaps Massachusetts can learn something in this regard from the impressive effort at adopting a coherent economic strategy just being created in Rhode Island. This program is tied together with a short list of unifying goals aimed at raising the anverage wage a specific amount, cutting unemployment relative to the nation, and creating a specific number of jobs. Certainly there are major differences between Rhode Island and Massachusetts. Some of the recommendations of the Rhode Island Strategic Development Commission have been in place in Massachusetts for some time. Others are being proposed now by our Commission report. Other major elements of the RI approach, however, have not been seriously discussed and need to be looked at.

This $250 million package of programs for a state one-tenth the size of Massachusetts is aimed at a state economy in much worse shape than our own. Certainly a comprehensive strategy for Massachusetts would differ from theirs. And yet, as our report shows, there are sections of Massachusetts as large as Rhode Island when taken together that face the same degree of economic crisis.

Next Steps

Our Commission has assembled much of the basic

information needed to develop a clear economic strategy and has begun to define the key issues. Unfortunately we just did not have the opportunity to study our own data and findings closely enough to take the next steps and put together a more complete package. In some topic areas the Commission did not have the resources or the mandate to assemble all the data needed to develop an economic strategy. Hopefully the work that has been done, together with the settlement of the plant closing controversy, has laid the groundwork for the state to get moving on a more complete approach.

I hope that the Governor will see fit to force the issue on the creation of an economic strategy for Massachusetts. There are any number of ways that he might go about it. Perhaps the Industrial Advisory Board recommended by the Commission would be an appropriate group to oversee the effort. It is designed to represent the right constituency groups. To be the right body however, it would have to be specifically charged by the Governor to develop a state economic strategy. Modest but adequate resources must be allotted to the effort; a time frame for completing work should be established; a formal document should be presented to the Governor, the Legislature and the public.

Sincerely,

Josh Posner

NORTON COMPANY WORCESTER MASSACHUSETTS 01606

ROBERT C. VARNUM, JR.
VICE PRESIDENT
ADMINISTRATIVE SERVICES

May 31, 1984

TO: Commission Co-Chairmen

I want to register my dissent to the "voluntary" compact, and I would ask that the dissent be submitted as part of the final commission report. I strongly disagree with the final paragraph that calls for using public financing programs as a "stick" to force business compliance. It is a negative statement in a document where we tried to be positive. More important, it undermines our credibility when we call the compact voluntary. It also implies a lack of trust in the business community, and I think this will be rightfully resented.

Thank you very much,

Robert C. Varnum

Robert C. Varnum, Jr.

jp

cc: Ben Kincannon

VINCENT M. O'REILLY
ONE POST OFFICE SQUARE
BOSTON, MASS. 02109

June 11, 1984

Mr. Ronald Ansin
Co-chairman
Mr. George Carpenter
Co-chairman
Dr. Joseph Duffy
Co-chairman
Governor's Commission on the
Future of Mature Industries
Suite 602
100 Cambridge Street
Boston, MA 02202

Gentlemen:

I have the following general comments on the May 25, 1984, draft of the report of the Commission:

1. Much of what is recommended in the report applies equally to all employers and employees in the Commonwealth. A statement should be made to indicate that the recommendations apply, to a considerable extent, to all employers and employees and not just for "mature industries." This same comment should be repeated wherever the vehicles recommended are similarly applicable to the entire Massachusetts economy.

2. A better definition of mature industries is needed. The definition should be capable of standing the test of time and changing circumstances. An approach directed at the characteristics of an industry, rather than specific industrial sectors, might be a useful tool for the future.

3. I have a strong private sector bias in matters of allocation of resources. Therefore, I recommend that:

   (a) The funding or guarantees incorporated in any recommendations be supplemental to, rather than in place of, private sector capital. This has the advantage of providing continual input from the "market-place" and will allow better decisions to be made. Additionally, it will reduce the amount of staff work and analyses needed by any public agencies created as a result of the Commission's work, since private sector analyses can be assumed to precede any application to the Commonwealth and commitment by it.

   (b) Rigorous "return on investment" objectives should be established before any funds are disbursed. Such objectives must establish a minimum level of cash return because of the revolving pool concept implicit in the recommendations. Other objectives, such a job preservation, should be quantified in advance and performance measured thereafter.

   (c) The Commonwealth should obtain the right to participate in any "windfall" profits which might accrue to any investee company via a future public offering or sale of the company. This technique is particularly equitable in those situations where the Commonwealth enchanced the viability of the company by its actions.

4. I believe that any mechanisms established to prevent an economic dislocation and/or cushion its effect, should be restricted to significant situations. Therefore, the Commission's recommendations should deal only with major closings, with major being defined to encompass not only numbers of employees (which usually should be much higher than fifty), but more importantly, percentages of employees related to the number of jobs and the then unemployed in the geographic area. For example, the closing of a plant in greater Boston which creates 300 unemployed workers is a much less serious situation than a closing which creates 300 unemployed in a smaller, more remote, area of the Commonwealth.

5. The recommendations need to be supported by an extensive cost benefit analysis with significant detail so that the Commission members and any readers of the report can better understand the investments required and the benefits expected. I realize that in some instances we may need to define the return on investment in terms which go beyond simply economic profit to encompass such things as job creation or retention, but I believe it is possible to create an analysis framework which is measurable. This concept of measurability is important both in the creation of new vehicles and the review of their performance.

6. If the industrial advisory board concept is implemented, the goal should be to keep the Industrial Advisory Board small and representative of the Massachusetts economy. There is, to my mind, a need to avoid a large, cumbersome Board which has so many members that it becomes difficult to get anything done. It is vital that this Board insures that decisions made by the Massachusetts Industrial Service are based on economic considerations rather than political expediency.

7. There are few companies on the brink of closing that can be saved. We should not set up an expectation that the Industrial Service can or should try to save a majority of such companies. It has been my experience that very special skills are necessary to be effective in helping troubled companies and that harsh actions are usually necessary with respect to some or a major piece of the business in order to save part of it. Finally, I believe that the primary role of the Industrial Service is to serve as a catalyst and a clearinghouse and that, in all instances, it will work in tandem with the private sector, particularly where it comes to financing.

8. I strongly object to the process by which the Massachusetts AFL-CIO was specifically named as a member of the Industrial Advisory Board. In all prior drafts of the Commission's report, reference was made to representatives of labor. I am not aware of any discussions at the Commission's meetings regarding the designation of a specific organization. Therefore, I find it difficult to support the naming of a specific organization in the final report as a Commission recommendation when the opportunity for discussion was never given.

8. (Continued)

I object to the specific naming of one organization in the Commission's report, just as I would object to the naming of a specific business organization as a permanent member of the Industrial Advisory Board. The Massachusetts AFL-CIO does not represent all labor unions nor all of labor within Massachusetts. I believe that there needs to be flexibility and the avoidance of the mandated representation of one organization.

9. We have drifted from the relatively simple idea of a Social Compact that we originally addressed which was to outline some general concept of employer responsibility. The draft, as presently exists, has reference to a number of topics which are explained in great detail in the Commission's report and does not contain precise definitions. If we want something that people can sign, it should be very simple and self-contained and not require reference to other documents or future definitions.

   The most troubling aspect of the Compact, to my mind, consists of the concept that funding from quasi-public finance agencies would be exclusively for signatory firms. While I have philosophical objections to this particular technique, I believe that the concept is impractical. If our goal is to promote and retain jobs within Massachusetts, then I cannot see realistically how the Commonwealth would deny assistance to a troubled firm or assistance to a new employer in the Commonwealth simply on the basis of non-signature of the Compact.

9. (Continued)

If there is a non-signing viable troubled firm in the Commonwealth, it should be helped because jobs will be preserved whether or not the employer has signed the Compact. Similarly, if a company new to Massachusetts is willing to provide jobs to Massachusetts citizens on the basis that quasi-public assistance is provided to it, then I do not see too much sense in jeoparidzing such jobs, if the prospective employer has some philosophical or other objections to signing the Compact.

The balance of this letter will address specific comments on the draft report and the draft of the Compact. In all cases my comments refer to the May 25, 1984, draft.

The second paragraph of Page 34 of the recommendations establishes a standard that I fear that is too rigorous to achieve in all cases. The term "comparable jobs" is used. I would suggest that we use some lesser standard such as "adequate employment" because in many instances an older worker may not be able to get a comparable job, particularly in his or her community of residence.

The product development fund is an interesting idea, but a better statement of purpose is necessary. This definition of purpose should serve as an effective screen to use to see if the projects presented meet the criteria. There also needs to be some definition of the return on investment which is contemplated by such a fund.

This vehicle could potentially put the Commonwealth in the awkward position of financing one resident company to the disadvantage of another. Solutions to this problem must be found prior to implementation.

I disagree with the concept which would have the Commonwealth look only to the product under development for its return. I would recommend that any advances under this concept be secured by business and personal assets of the investee to the extent that they are available. We also have to be careful about definitions in the implementation of this concept so that such things as measurement, success of product development, etc., are clearly stipulated.

Finally, I would recommend that the product development fund be a closed pool. This is not inconsistent with a grading up of the funding from an initial capitalization of $2 Million, but I strongly believe that there should be a cap and performance measured annually on a return basis.

I believe that the goal of the Commonwealth level assistance capability should be, in most instances, that of a catalyst or a clearinghouse. I am a bit troubled with the concept of the Commonwealth "providing engineers with special expertise in production to consult with companies of technological changes..." This is fine as long as it is a catalyst or clearinghouse function, but I would be opposed to the establishment of a consulting type firm within the Commonwealth structure.

The stabilization fund probably needs some more definition. It is not clear whether the activities contemplated consist simply of bridge financing until permanent financing can be arranged or whether a more permanent type of financing is contemplated. My recommendation would be that the stabilization fund be supplemental to private sector funds for the reasons previously outlined. Additionally, I believe that this stabilization fund should operate on a revolving basis so that the proceeds from the liquidation of previous investments are used to fund new investments. My previous comments on the applicability of such a mechanism to more than mature industries, the need for a clearly established return on investment criteria which is measurable, both as a screen for investments and to appraise performance, are applicable.

I strongly object to the concept that the directors of the stabilization fund should not bear any personal financial liability for their actions. I believe that the directors should have the same type of responsibility that the directors of any venture capital fund would normally have. Additionally, I believe that the board should be small.

The statewide monitoring capability is a good idea, but it should remain cognizant of and cooperate with private and university economic studies.

I believe that there is a need to have substantial study of the entire area of training so that there can be a better matching of costs and benefits. I do not believe myself to be sufficiently informed, based upon the Commission's work, to make any specific recommendations other than a strong sense on my part that there is the need for a study.

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I will be happy to provide additional commentary, if it would be helpful.

Sincerely,

Vincent M. O'Reilly

Vincent M. O'Reilly

VMO'R:gdo

cc: Mr. B. F. Kincannon

June 11, 1984

Executive Director
Governor's Commission on the Future of Mature Industries

We generally support the Commission's recommendations involving improving the climate for the creation of new enterprises and for increased government assistance to workers displaced by plant closings.

However, we oppose those recommendations (e.g. the proposed New Product Development Fund) that provide public funds to assist failing but "potentially viable" companies and industries. Such proposals constitute an industrial policy that substitutes political judgement for market judgement.

> Since market judgement will ultimately prevail, public funds used to subsidize failing companies are a waste of precious tax revenues.
>
> The subsidies are in general targeted at companies that have proven to be among the least viable. The proposals may reward failure.
>
> To give public funds to one company and not to its competitor(s) is unfair.
>
> There is no way of insulating the distribution of funds from political influence. The determination that a given company is or is not potentially viable will inevitably be based on the number of employees affected and the bargaining power of the business and political leaders involved -- none of which has anything to do with the essential viability of the company. The knowledge necessary to determine the viability of the firm, as well as the responsibility and accountability for its performance, must be presumed to lie with the company's management and its board of directors. This premise is so fundamental to our free-enterprise system that we cannot support any proposals that contradict it.

In defining the composition of various boards and commissions, the report uses the generic terms "business" and "government," but uses the specific term "AFL-CIO," apparently as a synonym for workers. We find this wholly unacceptable, just as the use of "AIM" or "High Tech Council" would be inappropriate in place of "business" or "The Dukakis Administration" in place of "government." The AFL-CIO speaks for well under 20 percent of the workers in this State, and it is irrational to suggest that the vast majority of workers, who have no affiliation with this union, should be represented by it on government commissions.

We also take exception to the use of coercion in the "voluntary" compact. In our view, a compact is not voluntary if its acceptance is a precondition for access to otherwise available public services. We believe that our proposals of voluntary Appropriate Responsible Action for employers faced with massive dislocation of employment serve best to minimize disruption to workers, their families, and their communities.

C. A. McKay
Executive Vice President
The Foxboro Company

Fred Van Veen
Vice President
Teradyne

FOXBORO